

SYSTEM PLANNING CORPORATION

1000 Wilson Boulevard, Arlington, VA 22209



**Political and Economic Implications
of Global Naval Presence**

Technical Report

September 30, 1996

**Dov S. Zakheim
Sally Newman
Jeffrey M. Ranney
Richard Smull
with
Peter Colohan
Roger Zakheim**

19970116 000

DTIC QUALITY INSPECTED 2

Prepared for:
Office of the Deputy Chief of Naval Operations,
Resources, Warfare Requirements, and Assessments
Assessment Division (N81)
The Pentagon
Washington, DC, 20350-2000

DISTRIBUTION STATEMENT A

Approved for public release;
Distribution Unlimited

ENCLOSURE (2)

SYSTEM PLANNING CORPORATION

1000 Wilson Boulevard, Arlington, VA 22209

SPC Log No.: 96-0989

Copy: 8



Political and Economic Implications of Global Naval Presence

Technical Report

September 30, 1996

**Dov S. Zakheim
Sally Newman
Jeffrey M. Ranney
Richard Smull
with
Peter Colohan
Roger Zakheim**

**Prepared for:
Office of the Deputy Chief of Naval Operations,
Resources, Warfare Requirements, and Assessments
Assessment Division (N81)
The Pentagon
Washington, DC, 20350-2000**

Contract No.: N66604-95-D-0047

POLITICAL AND ECONOMIC IMPLICATIONS OF GLOBAL MARITIME PRESENCE

Chapter I	Introduction	4
	Current State of Analysis of Peacetime Presence	7
	Study of Objectives and Outline	8
Chapter II	Foreign Perceptions of the Utility of American Overseas Peacetime Presence	12
	The Sample	12
	Perceptions of Overseas Presence	13
	The Special Role of Maritime Presence	19
	Perceptions of American Reliability	28
	Maritime Presence, Stability and Economic Interests	31
Chapter III	Economic Indicators of American Interests Overseas	34
	The Interrelationship Between Maritime Presence and Economic Stability: A Case Study	49
Chapter IV	Estimating the Cost of Presence as a "Peacetime Insurance Premium"	52
Chapter V	Findings: Some Lessons for Regional Commanders	55
Appendix A		58

TABLES

1.	U.S. Overseas End-Strength By Region (March 1991)	5
2.	Martime End-Strength by Region	12
3.	Cost of War vs. Cost of Annual Overseas Presence	54

FIGURES

1.	Growth in U.S. Trade: EASTERN MEDITERRANEAN: Greece, Turkey	35
2.	Growth in U.S. Trade: EASTERN MEDITERRANEAN: Israel	36
3.	Growth in U.S. Direct Investment:	
	Eastern Mediterranean: Greece, Turkey	37
4.	Growth in U.S. Direct Investment:	
	Eastern Mediterranean: Israel	38
5.	U.S. Petroleum Product Imports from the Persian Gulf	39
6.	Japanese Petroleum Product Imports from the Persian Gulf	40
7.	OECD Petroleum Product Imports from the Persian Gulf	40
8.	Growth in U.S. Direct Investment: GCC Nations	42
9.	Growth in U.S. Trade: East Asia	44
10.	Growth in U.S. Trade: East Asia	44
11.	Growth in U.S. Direct Investment: East Asia Region	45
12.	Growth in U.S. Direct Investment: East Asia By Country	46
13.	Growth in U.S. Direct Investment: East Asia By Country	46
14.	Asian ADRs Listed on the NYSE	47
15.	American Based Asian/Pacific Equity Funds	48
16.	American Based Asia/Pacific: Equity Funds (Excluding Japan)	49
17.	Crisis Presence: Economic Impact - Taiwan Election Crisis	50
18.	Crisis Presence: Economic Impact - Taiwan Election Crisis	51

CHAPTER I:

INTRODUCTION

The United States has determined that overseas military presence during peacetime, often termed "forward presence" or "peacetime presence"; should remain an integral part of its force posture in the post-Cold War era. In 1996, the United States maintains a diminished, yet still significant land and aviation presence in Europe and in Korea. In addition, it supports a robust maritime presence, including aircraft carrier battle groups and Marine Expeditionary Units, in the Mediterranean Sea, the Persian Gulf and East Asia (see Table 1).

America's military presence outside the European landmass was never merely a function of the Cold War. Indeed, the term did not appear in versions of the official Joint Chiefs of Staff Dictionary of Military and Associated Terms (JCS Pub. 1) that were published during that era.¹ The passing of the Cold War has, however, brought to the fore a debate over the underlying rationale for maintaining that presence for the foreseeable future. In that vein, the Navy currently is reviewing its long-term requirements in order to continue to carry out its presence mission as part of the National Military Strategy. The Navy's effort is being incorporated into the Forward Engagement / Conventional Deterrence Joint Military Assessment.

¹ For example, the 1986 version of JCS Pub. 1 includes no listing for "presence," "forward presence," or "maritime presence."

Table 1.
U.S. Overseas End-Strength by Region (March 1996)

	EUROPE	PACIFIC	OTHER	TOTAL OVERSEAS
USA	66,546	27,722	8,611	102,879
USAF	34,787	23,649	2,828	61,264
USMC	1,368	22,503	4,036	27,907
USN	14,626	20,315	9,534	44,475
DOD	117	95	25	237
TOTAL	117,444	94,284	26,034	236,762

Source: United States Department of Defense Directorate for Information, Operations, and Reports

Recent literature on peacetime presence has highlighted its importance for political and economic stability in those regions where it is maintained. For example, a 1996 report by a blue ribbon Council on Foreign Relations task force on Asia stated, " U.S. economic and security interests depend on Asian stability and justify a continued U.S. military presence in the region."²

The Clinton Administration's National Security Strategy of Engagement and Enlargement likewise links stability to presence worldwide, and not only in Asia. "Overseas presence," states the report, "demonstrates our commitment to allies and friends, underwrites regional stability...promotes combined training among forces of friendly countries and provides timely initial response capabilities."³

The Council on Foreign Relations task force report highlighted another critical aspect of presence in the post-Cold War era: the need for it to be as flexible as possible. In the words of the Council: ""U.S. efforts should be focused on mobile air and sea forces, leaving land forces to U.S. allies."⁴ Traditionally, as the Congressional Budget Office noted nearly two decades ago, "U.S. presence outside continental Europe continues to be viewed primarily in naval terms by both the Department of Defense (DoD) and the public at large. Furthermore, naval presence has been synonymous with carrier presence."⁵ Indeed, the U.S. Navy's own long term vision of its future, ...From the Sea, which appeared in 1992, could well have provided the model text for the White House report four years later.

² Council on Foreign Relations, Redressing the Balance: American Engagement with Asia (New York: Council on Foreign Relations, 1996), p.14. See also Admiral William A. Owens, USN, High Seas: The Naval Passage to an Uncharted World (Annapolis, MD: Naval Institute Press, 1995), especially, pp. 36-49; Harlan K. Ullman, In Irons: U.S. Military Might in the New Century (London: Duckworth, 1995), especially, pp. 129-53.

³ William J. Clinton, A National Security Strategy of Engagement and Enlargement (Washington, DC: The White House, 1996), p. 13.

⁴ Ibid. The report did stress, however, that "long-standing U.S. commitments in South Korea and Japan are exceptions to this rule."

⁵ Dov S. Zakheim, U.S. Naval Forces: The Peacetime Presence Mission (Washington, D.C.: GPO, 1978), p. 2. See also Harold Brown, Department of Defense: Annual Report, Fiscal Year 1979 (Washington, DC: GPO, 1978), pp. 86-87.

"...From the Sea" defines presence as "operating forward, from the sea." In elaborating upon the term, the document states that "the Navy and Marine Corps operate forward to project a positive American image, build foundations for viable coalitions, enhance diplomatic contacts, reassure friends...demonstrate U.S. power and resolve...(and) **contain crises**."⁶

Current State of Analysis of Peacetime Presence

While widely regarded as true, indeed as virtually intuitive, there has been little systematic exploration of the validity of the foregoing assertions and definitions.⁷ In particular, there have been only limited attempts to survey the perceptions of regional political, military and business figures regarding linkage between economic activity, regional stability and military presence.⁸ Nor has an attempt been made to demonstrate the importance of military presence to regional economic growth and development.

Both such efforts pose a host of technical problems. With respect to opinion surveys, it would be difficult to apply scientific polling techniques to those overseas regions wherein the United States maintains a presence. In particular, the difficulties involving access, for example, the absence of telephones and of literacy are enormous. A truly scientific sample would involve a logistically massive undertaking so as to yield results that are properly representative of age, sex and perhaps ethnic group or race, as well as national income distribution in at least thirty nations -- not all equally as developed -- affected by U.S. overseas presence in the regions under review.

⁶ "...From the Sea: Preparing the Naval Service for the 21st Century" (Washington, DC: Department of the Navy, 1992), p.3. Highlighted words are as they appear in the report.

⁷ There have of course been many studies of presence over the years. See for example, James Cable's seminal volume, Gunboat Diplomacy: Political Applications of Limited Naval Force (New York: Praeger, 1971); Edward N. Luttwak, The Political Uses of Sea Power (Baltimore, Johns Hopkins, 1974), and Barry M. Blechman and Stephen S. Kaplan, Force Without War: U.S. Armed Forces as a Political Instrument (Washington, DC: Brookings, 1978).

⁸ For example, "Asian Executives Poll," Far East Economic Review, (October 3, 1996), www.Feer.com. See also polling data in Everett Carl Ladd and Karlyn H. Bowman, Public Opinion in America and Japan: How We See Each Other and Ourselves (Washington, DC: AEI Press, 1996), especially pp. 26-38.

While perhaps less daunting, any evaluation that seeks to correlate military presence with regional economic stability and ultimately, with the preservation of America's overseas economic interests would confront significant challenges as well. For example, an analysis would have to filter out other variables affecting the behavior of those overseas markets and exchanges that are the subject of American investment during times of crises, when, presumably, the impact of military activity can most easily be measured. These other variables would include the activity of speculators, both American and foreign, long-term regional market trends, the behavior of markets in other regions, and supply-and-demand factors, including returns to Americans on other financial instruments elsewhere in the world.

Study Objectives and Outline

This study represents a modest first step toward dealing with the relationship between military presence, political and economic stability, and America's overseas interests. It is divided into chapters that address presence from distinct but linked vantage points before summarizing their findings. Chapter II provides an overview of first hand observations by senior regional decision makers regarding the many aspects of presence, including:

- o the importance of American military presence to regional political and economic stability
- o the significance of American maritime presence in particular
- o the significance of particular forms of maritime presence
- o the implications for economic stability of a withdrawal of American maritime presence.

These observations are not based on scientific polling data, for the reasons given above. Instead it derives from both on- and off-the-record interviews with an array of political, military and business leaders in Greece, Turkey, Israel, the United Arab Emirates, Qatar, Bahrain, South Korea, Taiwan, Singapore, and China, as well as recent secondary sources addressing similar themes. The choice of the countries in question was dictated by a desire to derive a mixture of reactions both in regional terms (the three regions in which the United States has its largest

overseas maritime deployments are the Eastern Mediterranean, the Persian Gulf and East Asia) and to sample opinion in states of differing size, military and economic power, and relations with the United States.

Chapter III of this report addresses the linkage between presence and American overseas economic activity, without, however, establishing direct causality between them. It first outlines the degree of that activity in the three aforementioned regions, and highlights recent growth in American trade and investment, particularly in the Eastern Mediterranean and East Asia regions. Trade figures point to the growth or decline of American involvement in the economic fortunes of particular states and regions worldwide. They also offer a rough indicator of the degree to which broad sections of the American population have a stake in the stability and prosperity of those regions.

In examining the growth of overseas investment, the report focuses on the activity of American mutual funds as indicators of the growth of investment in East Asia, which has shown the most consistent and dynamic economic growth over the past decade and is the region with the largest American overseas maritime presence.

Mutual funds represent a very different kind of American investment. They are the financial instruments of Main Street not Wall Street. In particular, mutual funds have become the staple of retirement plans throughout the United States. As of 1995, retirement plan assets, excluding variable annuities, accounted for one-third of mutual fund assets. Moreover, mutual funds accounted for 35 percent of the IRA market in 1995, and \$525 billion of the 401(k) market. Finally, investment in mutual funds jumped from 21 percent to 31 percent from 1994 to 1995.⁹

Given the growing link between retirement investment and mutual funds, overseas investments by mutual funds represent a direct vested interest on the part of millions of ordinary Americans in economic growth and development abroad. Mutual funds thus provide a measure

⁹"Investment Company Institute, 1996 Mutual Fund Fact Book, 36th Edition, (Washington, DC: 1996), p.80.

of the importance of overseas military presence that other forms of investment cannot match. In this regard they share the characteristic of trade figures, which likewise represent economic activity on the part of a broad distribution of the American public and highlight its stake in the stability of the international political and economic climate.

As noted above, other forms of investment, such as in commodities, including petroleum, involve a host of variables that are not easily filtered out of an attempt to correlate American overseas military presence with overseas economic activity. For example, petroleum market prices are heavily influenced by futures markets. They will be less elastic with respect to short-term crises, for example, the rapid deployment of American forces to Kuwait in October 1994.

Similarly, fluctuations in commodity prices cannot be easily correlated either with the presence or absence of American forces, or as a response to crisis behavior. They too are influenced by futures markets, as well as by speculators and arbitragers. Moreover, the percentage of Americans who stand to gain or lose from fluctuations in commodity prices is, in the first instance, relatively small, though ultimately, all American consumers would be affected by long term trends.

Chapter III of this report also will provide a case study of the impact of a crisis on the behavior of a regional market of importance to American investors. The crisis that preceded the first free presidential elections in Taiwan's history was precipitated by the People's Republic of China. The United States responded by sending two aircraft carrier battle groups toward the Taiwan strait. The report will examine the behavior of the Hong Kong's Hang Seng stock market before, during, and after the crisis to test the hypothesis that the rapid response capability that overseas military presence fosters can have a beneficent effect on market behavior.

To provide an additional perspective, Chapter IV of this report examines what might be termed the cost and value of presence as an "insurance premium." To do so, the report compares

the cost of the Gulf War to the annual cost of maintaining U.S. forward deployments worldwide. The ratio of those costs is, in effect, the "overseas presence insurance premium."

It should be noted that SPC's estimates of peacetime presence probably represent a ceiling on costs. These have been generated by SPC's Constant Force Modernization Model, which treats the cost of system replacement (and annual amortization of that cost) as an exponential function over time. On the other hand, estimates of the "cost of war" are probably understated, since the Gulf War was notable both for its brevity and for the few losses it generated. Thus, the ratio between the two has probably been understated, that is, the actual "overseas presence insurance premium" is probably lower than that presented in this report. Clearly, to the extent that the cost of peacetime presence represents a relatively small fraction of the cost of the prosecuting contingencies that the United States seeks to avoid, it represents yet another important benefit to presence.

Lastly, Chapter V of the report will outline a series of both general conclusions, and conclusions relevant to the three unified commands with operational responsibility in the regions under consideration: the European Command for the Eastern Mediterranean, the Central Command for the Persian Gulf, and the Pacific Command for East Asia. Taken together, the perceptions of regional decision makers and opinion leaders, the economic stake in regions where maritime forces are forward deployed, and the overall "insurance" value of overseas presence could offer a strong rationale for maintaining, if not bolstering, America's long-standing policy of deploying forces overseas well into the twenty-first century.

CHAPTER II:

FOREIGN PERCEPTIONS OF THE UTILITY OF AMERICAN OVERSEAS PEACETIME PRESENCE

The Sample

In undertaking this report, the study team sought to identify a mix of respondents that would address America's overseas presence especially its maritime presence, in the Eastern Mediterranean region, the Persian Gulf region (notably the Arabian Peninsula and its adjacent waters), and the East Asia/Western Pacific littoral (see Table 2).

Table 2.
Maritime End-Strength By Region

	September '94	September '95	March '96
Pacific	44,012	36,412	42,818
Europe	21,041	20,059	15,994
Other	19,684	14,964	13,570

Source: U.S. Department of Defense, Directorate for Information, Operations, and Reports - The Pentagon.
<http://web1.whs.osd.mil/mmids/military/309a396.htm>

Respondents were not chosen at random, but rather with a view to obtaining a wide variety of perspectives on the issue. Respondents therefore included opinion leaders -- government ministers, senior officials, active and retired senior military officers, academics and businessmen. The study team held on site interviews in Greece, Turkey, Israel, Bahrain, Qatar, the United Arab Emirates, Singapore, the People's Republic of China, the Republic of Korea and Taiwan. The team also interviewed visiting foreign officials in Washington and conducted a literature review of overseas regional publications.

Perceptions of Overseas Presence

General Observations: Although the states visited by the study team reflect a wide variety of security concerns, opinion generally converged on the central thesis that the presence of United States military forces plays an extremely useful and important role in preserving stability and security in each of the regions under review. Support in virtually all of these countries for that presence has not diminished since the end of the Cold War. Even elites in the People's Republic of China, which has had a very tense relationship with the United States in the past few years, have not demanded the withdrawal of American presence in East Asia. Instead, they seek a change in those policies that American military presence is meant to support. There is also a widespread sense, implied by some respondents and articulated by two Turkish government officials, that presence

- o should be "transparent";
- o should support the policies of like minded authorities who seek peace and stability;
- o should complement the military operations of friendly states; and
- o should have a clear objective and not merely be "presence for the sake of presence."¹⁰

Attitudes in the Eastern Mediterranean. Rivals such as Greece and Turkey both seem to be in agreement on the importance of American presence. Dr. Ali Karaosmanoglu, Chairman of the Department of International Relations at Bilkent University, and one of Turkey's leading academic strategists, asserted that

U.S. military presence is a useful **stabilizing factor** (our emphasis), that makes a positive contribution from a security point of view. In terms of deterrence value it helps keep Iran and Iraq at bay.¹¹

¹⁰ Interviews, Ankara, May 1996.

¹¹ Interview with Dr. Ali Karaosmanoglu, May 1996.

In virtually identical terms, General Halis Berhan, retired Chief of the Turkish Air Force, stated that U.S. presence in the area is vital to Turkey, not just for the Black Sea, but for Iran and Iraq." He added that "only American presence was truly credible."¹²

Commodore Antonio Antoniadis, Director of the Policy Division of the Hellenic Navy's General Staff, concurred with these views. In his words, "U.S. military presence is a major contribution toward preventing military problems." Significantly, he added that "U.S. presence is now accepted by the general [Greek] public." This acceptance is in marked contrast to the often ambivalent feelings of the Greek public about American presence during much of the latter part of the Cold War period.

While Greece and Turkey, as NATO allies, have benefitted from various forms of American presence since President Truman dispatched the battleship Missouri to the Mediterranean in 1946, Israel has only recently begun to welcome large numbers of American forces on its territory. Military and civilians alike stressed the importance of that presence in the post-Cold War era. As Zalman Shoval, a former Ambassador to Washington and a senior advisor to Binyamin Netanyahu (then still Leader of the Opposition) put it: "With the demise of the USSR, in Israel's view, the importance of U.S. presence has not lessened."¹³

The desire for American presence is widely held in Israel, regardless of party affiliation. For example, retired Major General Menahem Meron, formerly Director General of the Defense Ministry under the Yitzhak Rabin and a Rabin confidant until the latter's assassination, argued that, as a superpower, the United States "must willingly or unwillingly assume responsibility for defense in critical areas."¹⁴ Admiral Avraham Ben Shoshan, former Navy commander who was appointed Director-General of the Ministry of Labor and Social Affairs by the Labor Government, likewise contended that presence is "everything that shows the flag, whether it be

¹² Interview with General Halis Berhan, TAF (ret.), May 1996.

¹³ Interview with Ambassador Zalman Shoval, May 1996. Shoval is also Chairman of the Board, Bank of Jerusalem, and a leading Israeli businessman.

¹⁴ Interview with Major General M.M. Meron, IDF (ret.), May 1996.

ships or a battery of Patriots. Politically, morally, psychologically, it has a big impact." He added that it made the difference in the Gulf War: "We were able to buy time."¹⁵

Finally, Brigadier General Shimon Hefetz, who served as military assistant to Prime Minister Rabin and Defense Minister Moshe Arens in the Likud Government, and currently is military advisor to Israel's President Ezer Weitzmann, argued that "Israel favors the U.S. staying around...Defense is not for Israel *per se*, but as a base for the defense of the rest of the Middle East."¹⁶

Attitudes on the Arabian Peninsula. The views expressed by respondents on the Arabian Peninsula reflected the ambivalence that American presence engenders among small states that look to Washington for security but fear its cultural influence. American presence is welcomed by many officials of the smaller states of the GCC (Gulf Coordination Council), such as Bahrain and Qatar, which themselves are at loggerheads over the status of Howar Island. Bahrain's Ghazi Algosaibi, Under Secretary at the foreign ministry and former Ambassador calls that presence a "stabilizing factor" in the region. It protects small states against bigger neighbors, especially Iran, which Bahrain considers the instigator of the many bombings and other disruptions that have recently plagued the island emirate.¹⁷

Qatar's foreign minister, Sheikh Hamad bin Jassim al-Thani, who is widely considered to be the Emir's closest advisor and the architect of that country's activist foreign policy, listed "security and stability" as the first of many reasons for supporting American presence in the region.¹⁸ In a subsequent interview to an Arab journalist, he asserted that "It is natural for our allies to deploy as part of security arrangements in the region. The Gulf States continue to have some sort of security fears and thus, they do not mind a U.S. presence!"¹⁹

¹⁵ Interview with Admiral Avraham Ben Shoshan, IN (ret.), May 1996.

¹⁶ Interview with Brigadier General Shimon Hefetz, IDF, May 1996.

¹⁷ Interview with Ghazi Algosaibi, January 1996.

¹⁸ Interview with Sheikh Hamad bin Jassim al-Thani, January 1996.

¹⁹ See Muhammad Wajdi Qandil, "Interview with Qatari Foreign Minister Sheikh Hamad Bin-Jassim," Al-Watan Al-Arabi (July 26, 1996), pp. 38-41. The emphasis is as reported.

Dr. Abdulhaleq Abdulla, Associate Professor at Emirates University, El-Ain, put these views in perspective. Since the Gulf War, he stated,

the GCC sense of insecurity, i.e. Iran, Iraq, regional imbalances, made the GCC more dependent on foreign protection. The increasing GCC reliance on U.S. protection combined with a U.S. need for oil (that was steadily deepening), developed a special (US-GCC) relationship.²⁰

Interestingly, Professor Abdulla was incorrect about the growing dependence of the United States on Gulf oil. In fact, as will be shown below, dependence on petroleum products has actually declined somewhat since the Gulf War. Clearly, however, there is a perception among at least some Gulf elites that increasing American presence is a reflection of increasing economic dependence on the Gulf region.

While the recent bombing of the al-Khobar apartments are considered to be the work of extremists who oppose American presence in the region, there is no covering up the undercurrent of ambivalence that marks attitudes among Gulf elites to the recent increase in the American military profile there. As Adnan Pachachi, an Iraqi emigre and former foreign minister who advises the UAE leadership put it, presence is welcome but

people are uncomfortable if the presence goes on too long, and they don't believe it to be in the long-term interests of the country...The Saudis are more amenable to U.S. involvement or advice because they need the U.S. more than the U.S. needs them.²¹

Some GCC government officials also share this view, though they are reluctant to say so for the record. One minister was particularly unenthusiastic about the American land force presence on the Arabian peninsula, though he was quick to recognize the dangers posed by Iranian attempts to expand its own influence among the GCC states.

²⁰ Interview with Dr. Abdulkhaleq Abdulla, June 1996.

²¹ Interview with Ambassador Adnan Pachachi, May 1996.

Attitudes in East Asia. America's friends in East Asia share the perception held by elites in the other regions that American military presence is important for both political and economic stability. To be sure, there is some ambivalence about American presence in Japan, which has become a highly charged issue since the September 1995 rape incident on Okinawa involving U.S. military personnel. A recent poll of Asian businessmen reveals that respondents in South Korea and in Japan itself "are evenly split" over the issue of retaining or reducing American presence in Japan. Malaysians prefer a reduction (76.5% of respondents) while Singaporeans by 63%-38% oppose any reduction.²²

With respect to presence in general, however, there appears to be far less disagreement. Instead, even Lee Kuan Yew, the outspoken Singapore senior minister (and former prime minister) who has often been critical of American values, acknowledges that

we have to accept the reality that there is no combination of forces in ASEAN (the Association of Southeast Asian Nations) that could stand up to a military confrontation with China. Unless there is an outside force, such as America, there can be no balance in the region.²³

Other Singaporean officials have been even more supportive. Dr. Tony Tan, Deputy Prime Minister and Minister of defense, welcomed the statement by the Chairman of the Joint Chiefs Shalikashvili that Washington "would maintain its military strength in the Asia-Pacific region to help ensure stability in that region."²⁴ Several officials referred to a speech in April 1996 by Singapore's Foreign Minister at Washington's Center for Strategic and International Studies, in which he stated that

²² "Asian Executives Poll." See also Ladd and Bowman who note that while a majority of Japanese prefer a reduction in American force presence, an overwhelming majority (68%-14%) consider that the U.S.-Japan Security Treaty "is useful...in maintaining the peace and safety of Japan." (p.35).

²³ Dr. Lee Kuan Yew in Walton Morris, "Lee Kuan Yew Comments on Recent China, Taiwan Tension," Business Times (Singapore), (16-17 April 1996), p.1.

²⁴ Statement of Dr. Tony Tan, Deputy Prime Minister, 15 May 1996.

"over the entire post-war period it was the climate of security and stability that United States power provided that enabled economic growth to germinate and flourish in Southeast Asia and across in East Asia."²⁵

The principle that presence assures stability is also one that was articulated by a variety of opinion makers in several countries. Dr. Jusuf Wannandi, Director of the Indonesian Center for Strategic and International Studies and that country's best known strategic expert, argued that "U.S. presence was the mainstay for stability in the region for the past 50 years and will continue to be."²⁶ Dr. Ting Shou-Chung, one of the leading young activists in Taiwan's ruling KMT party put it in almost identical terms: "Presence is not just important for China but for all of East Asian stability."²⁷

Dr. Ting, a former chairman of the Taiwan legislature's defense committee and Director-General of the KMT's youth affairs department was speaking just after the Taiwan missile crisis had crested. As chairman of the "Bridge Across the Straits" Foundation, which fosters links between Taiwan and the mainland, he was especially well placed to evaluate the importance of presence not only to Taiwan, but to China as well. Indeed, interviews in Beijing with leading policy analysts, retired and active military personnel, and legislators--all of them not for attribution--revealed a strong desire for friendship with the U.S. despite the tensions, and indicated no problems with American presence *per se*. By limiting their critique of American deployments to the transit of two aircraft carrier battle groups toward the Taiwan Strait, the Chinese were sending an important message: American presence in the region as a whole was still very much welcome.²⁸ It was, as Sherlock Holmes put it when he solved the mystery of The Hound of the Baskervilles, a case of the dog that didn't bark.

²⁵ Professor S. Jayakumar, The Southeast Asian Drama: Evolution and Future Challenges (Washington, DC: n.p., 1996), p.16.

²⁶ Interview with Jusuf Wannandi, April 1996.

²⁷ Interview with Dr. Ting Shou-Chung, April 1996.

²⁸ It should be noted that Dr. Yu-Ming Shaw, Director of Taiwan's National Chengchi University's Institute of International Relations, and an outspoken Taiwanese critic of the U.S. carrier deployment, nevertheless leveled no criticism at America's presence or even at the fact that the United States involved itself in the crisis. Rather, his concern was that the U.S. had "overreacted."

Part of the reason for China's unwillingness to criticize American presence is its own growing concern about Japan. This concern is very much shared in Taiwan and in other southeast Asian states that were once subjected to the "Japanese Co-Prosperity Sphere." One very senior Taiwanese military official summarized these concerns by underscoring the need for American presence to allay his, and others' worries about Japanese "redefinition" of its involvement in East Asia. Other officials, notably in Singapore and South Korea echoed similar sentiments. South Korean businessmen shared these views as well; one identified Japan as South Korea's primary long-term threat.²⁹

The Special Role of Maritime Presence

American overseas presence includes land, air and maritime forces. The diversity of American presence is both understood and appreciated by friends, allies and potential adversaries worldwide. Nevertheless, interviews in all three regions indicate that flexible American presence, of which maritime presence is a prime component, appears to be most favored by local policy makers, businessmen and opinion leaders.

The varieties of presence. The end of the Cold War has resulted in a major draw-down of America's European presence, from over 326,000 (including nearly 245,000 in Germany) to a level of about 109,000.³⁰ On the other hand, American presence in the East Asia/Pacific region has been stabilized at just under 100,000 personnel, down from a level of about 110,000 in 1990, despite the American withdrawal from Clark Air Force Base and Subic Bay in the Philippines.³¹ Indeed, the U.S. military presence in the Persian Gulf region has risen as a result of the 1991

²⁹ Interview with Dr. Ting Shou-Chung, May 1996.

³⁰ William J. Perry, Annual Report to the President and the Congress (Washington, DC: US GPO, 1996), p. 13; this estimate is for September 30, 1996.

³¹ See *ibid.* The 1989-1990 edition of The Military Balance, published by the International Institute for Strategic Studies, listed a total of 109,290 troops in Asia, including 8200 in Guam, 1400 at Diego Garcia, and 43,200 in South Korea. The Department of Defense Annual Report to the Congress for Fiscal Year 1990 noted that there were 47,000 troops in Korea. See International Institute for Strategic Studies, The Military Balance: 1989-1990 (London: Brassey's, 1990), p. 26; Frank C. Carlucci, Annual Report to the Congress: Fiscal Year 1990 (Washington, DC: US GPO, 1990), p. 62.

Gulf War and Iraq's sudden deployment of Republican Guard divisions close to Kuwait in October 1994. There are currently about 9000 troops on the Arabian Peninsula, and about 170 aircraft, including rotating detachments of F-15, F-16, F-117, C-130, KC-135, E-3 and other aircraft to Saudi Arabia that create an almost full time tactical aviation presence in that country.³² In addition, the United States maritime presence in the Gulf has grown markedly since 1989, when a total of eight surface combatants and three mine warfare ship actually constituted the Joint Middle East Task Force.³³ By 1996 the United States had added a carrier battle group, an amphibious ready group with an embarked Marine expeditionary Unit, and Tomahawk capable surface combatants.³⁴

"Presence" never has connoted only maritime, or more narrowly, naval presence, and it does not do so today. Indeed, Air Force Chief of Staff Ronald Fogelman recently spoke with pride of a very different kind of presence. Describing the B-2's arrival at the Singapore Air Show direct from the United States, General Fogelman recalled that "Minister (of Defense Dr. Tony) Tan turned to me and very succinctly said the B-2's appearance signified America's commitment to stability and security in the Pacific region."³⁵

Moreover, General Fogelman has formulated an innovative operational approach to overseas presence through the creation of the Air Expeditionary Force concept. He recently described this force as

a package of fighters stationed in the continental United States that can...deploy inside normal wartime deployment time lines, to another part of the world to augment or substitute for other forces that have to rotate out of theater. They are supported by tankers and backed up by long-range bombers that remain in the United States.³⁶

³² See Anthony Cordesman, US Forces In the Gulf: Resources and Capabilities working draft (Washington, DC: Center for Strategic and International Studies, 1996), pp.39-40. The official Department of Defense estimate for March 31, 1996, was 3,573.

³³ IISS, The Military Balance: 1989-90, p. 26.

³⁴ Perry, Annual Report, p. 13.

³⁵ General Ronald R. Fogelman, USAF, "The Use of Force in the Post-Cold War Environment," remarks to the World Affairs Council of Orange County, Calif. (April 23, 1996), p. 4.

³⁶ Ibid.

In Fogelman's view, the objective of this force is "to bolster U.S. presence in unstable regions and to reinforce our diplomatic influence." He added that "as our aircraft carriers become fewer, we're experiencing carrier gaps in different regions of the world...one of the ways we can deal with that is by deploying an Air Expeditionary Force."³⁷

The notion of "virtual presence", that is, a presence that is only intermittent but is supported by the availability of rapid response forces in the United States--much like the B-2--has not, however, caught on widely in the regions under review. General Halis Berhan, the former Turkish Air Force commander, alluded to such a form of presence when he indicated that technology could substitute for physical presence such as land bases in Europe. He felt that if there was "power behind the presence, the enemy will know." Nevertheless, even his mild denigration of the importance of visibility did not go so far as to eliminate a requirement for naval forces on patrol, as will be noted below.

Interviews with regional opinion and policy makers, as well as businessmen, indicate that while no form of American presence is rejected, flexible presence, especially maritime presence is most welcome today and for the long term. In particular, there is absolutely no enthusiasm whatsoever for increasing the levels of land based forces in the Eastern Mediterranean, or the Arabian Peninsula or East Asia. Not a single respondent expressed a desire for more forces.

On the other hand, respondents in each of the three regions expressed their concerns about the viability of a long-term American land force and, in some instances, even land-based, presence. Some did so in muted terms. For example, Captain Eli Oren, IN (ret.), Head of Strategic Planning for the Israel Defense Forces, noted that "naval presence is ideal because it provides the necessary visibility while avoiding sensitivities that arise through having foreign land forces."³⁸ Others, were more direct, even if they did not speak for the record. A number of

³⁷ Ibid.

³⁸ Interview with Captain Eli Oren, IN, May 1996.

Turkish respondents noted that, fueled by the Turkish media, the Turkish public has become increasingly uncomfortable with Operation Provide Comfort, the high profile Air Force operation that operates from bases in eastern Turkey.³⁹ Other respondents, especially in the Gulf, voiced more general concerns about an ongoing, or worse still, growing, land-based presence. Such a presence could be viewed by "the street" as foreign domination, imperialism, and a betrayal by the ruling class. Ambassador Ioanis Tzounis, former Greek Deputy Foreign Minister bluntly encapsulated the issue, "A permanent presence of U.S. forces is bound to create (difficulties) with the populace."⁴⁰

Historically, Arab political and business elites in the GCC have preferred what they termed an "over the horizon" presence rather than one based ashore. Distrust of foreigners, especially fear of Western cultural and religious penetration, and a desire not to upset delicate balances with their larger neighbors led all of the states now comprising the GCC (with the partial exception of Bahrain) to keep American presence at arms length. The fall of the Shah made both Saudi Arabia and the UAE somewhat more receptive to an American land based presence, but still only to a very limited degree. It was only the Gulf War that radically altered short term perceptions of the value of American military visibility on the Arabian Peninsula. For the longer term, the ambivalence remains, and has been reinforced by the recent wave of bombings in Saudi Arabia and Bahrain.

Oman's Minister of State for Foreign Affairs subtly articulated this ambivalence when he recently asserted that

³⁹ Interviews in Turkey, May 1996.

⁴⁰ Interview with Ambassador Ioanis Tzounis, May 1996.

the U.S. presence in the Gulf--especially an **"over-the-horizon" presence** (emphasis added)--is vital to peace and stability in the region. Traditionally U.S. troops have had a role in the Gulf and the rationale for a U.S. presence remains strong and convincing. It would be short-sighted to criticize the U.S. presence, given that a U.S. withdrawal would open a vacuum that some other less friendly, less reliable power will surely seek to fill.⁴¹

While some observers, such as the UAE's Ambassador Pachachi, are not nervous about American presence in their country, seeing it as "non-intrusive" and "not felt at all", some Gulf officials and opinion makers are unenthusiastic about land based forces even for the near term. They worry that increased presence in Bahrain will provoke anti-Western Shi'a elements in Bahrain, exacerbating tensions caused by local economic tensions which Iran in particular can be expected to exploit.

Land-based American presence has long been a source of friction within both South Korean and Japanese societies, although the governments of both countries remain firmly committed to its continuation on their territory. Many Japanese continue to value the presence of American troops, despite recent tensions. As a chief Washington representative of a major Japanese corporation put it, the Marine Corps is "an appropriate presence for Japan; they are self-sufficient and trained to react to any contingency."⁴² Significantly, this businessmen would not speak for the record. On the other hand, Jitsuro Terashima, General Manager of Mitsui USA, articulated some of the troubling aspects of American presence in Japan: "Japan pays 70 per cent of the cost of U.S. bases, so from the point of view of young Japanese, US troops are almost employees of the Japanese government." Terashima added, "I support the Seventh Fleet, but you should gradually reduce land presence."

South Korean government officials who support the continuation of American troop presence in their country are already thinking along the same lines as those articulated by Mr. Terashima as they speculate about the changing nature of the American support that they will

⁴¹ Yusuf Bin Alawi Bin Abdallah, "Oman's Foreign Policy: From Gulf Security to the Peace Process," Policy Watch 199 (Washington, DC: Washington Institute for Near East Policy, May 10, 1996), p.2.

⁴² Interview, April 1996.

desire once Korea is reunited. Their basic premise is that some such support will continue to be necessary, given Korea's perceived geostrategic vulnerability to predations from its larger neighbors, Russia, China and Japan. Nevertheless, they do not anticipate more than a token American troop presence; instead they look to flexible maritime and air forces as a demonstration of American commitment to their security.

The argument that American forces wear out their welcome recurred among many of the interviewees, both on the record and in not for attribution remarks. As Admiral Yeh Chang Tung, retired Chief of Taiwan's Defense staff and a strategic advisor to President Lee Teng Hui put it, "land and air bases wear out their welcome."⁴³ Dr. Chan Heng Chee, until July 1996, the widely respected Director of Singapore's Institute for Southeast Asian Studies provided a somewhat different perspective shortly before her appointment as Singapore's Ambassador to Washington, the United States "needs to get away from the approach of the 60s and 70s. Numbers on the ground have less impact. With advances in communications and early warning naval and air systems are more flexible and able to respond to crises."⁴⁴ Although they would not do so for attribution, officials and businessmen in other Asian states also noted Japan's difficulties on Okinawa among reasons for discouraging expansion of American land based presence in East Asia. Similar views were expressed with respect to Korea. Dr. Kim Bok Sam, Vice President of the Le Meilleur trading company, articulated the views of other Korean businessmen when he stated that the bad behavior of American servicemen "damages the U.S. position in Korea." In any event, there is widespread anticipation of a drawdown. As Indonesia's Dr. Wannandi put it "when I think of presence I don't think of 100,000 troops...In the next few years, in accordance with developments in Korea, troop levels should be adjusted."⁴⁵

Support for Maritime Presence: In the Eastern Mediterranean. There appeared to be widespread support among respondents in the eastern Mediterranean for American maritime presence in

⁴³ Interview with Admiral Yeh Chang-Tung, ROCN (ret.), May 1996.

⁴⁴ Interview with Dr. Chan Heng Chee, May 1996.

⁴⁵ Interview with Wannandi, May 1996.

general and naval presence in particular. For example, General Berhan, despite his background as an Air Force officer, readily asserted that "in the Mediterranean...naval presence...will be important for purposes of providing means to deal with crises resulting from instabilities of the Balkans or developments in the 'arc of crisis' from Morocco to Iran."⁴⁶ He observed that the end of the Cold War and the dispersion of a variety of local threats created a special need for American units because it affected the composition and structure of naval expeditionary forces. "Such forces," he stated, "are needed to cope with a large spectrum of contingencies, and European navies lack the capacity to constitute such forces on a scale and versatility comparable to that of the United States."

Greek respondents echoed similar views. Not surprisingly, Admiral Dimitracopoulos, argued that "U.S. ships carry a message. In the Imia island crisis of January 1996, the Navy helped in deterring further escalation; mainly naval forces is what can make the difference."⁴⁷ In a similar vein, Commodore A. Antoniadis, Director of the Hellenic Navy's Policy Division asserted that "for the projection of power the only force is the Navy...has more visibility...is more multinational in origin. During a crisis," he added, "it is important to see the U.S. patrolling.." ⁴⁸

These views are not exclusive to Greek admirals, however. George Kapopoulos, the foreign editor of Investor, a Greek politico-economic journal, states that naval presence is seen as "decisive, and interposing U.S. military ships is positive."⁴⁹ Similarly, Yalcin Onyuru, an official of the Target Group, a Turkish defense related company, felt that because presence should be "seen and not heard", naval presence was to be preferred since it provided Turks with the assurance that the United States would be available when needed." ⁵⁰

⁴⁶ Interview, May 1996.

⁴⁷ Interview, May 1996.

⁴⁸ Interview with Commodore A. Antoniadis, HN, May 1996.

⁴⁹ Interview with George Kapopoulos, May 1996.

⁵⁰ Interview with Yalcin Onyuru, May 1996.

Israelis view these issues in much the same way. Brigadier General Shlomo Brom, Head of Strategic Planning for the Israel Defense Forces, used virtually identical language in describing U.S. presence as "an insurance policy" for Israel.⁵¹ Captain Oren of the IDF staff provided a further perspective, noting the ability of naval forces to act in multiple deterrent roles: "Naval forces...give the flexibility (sic) in tackling conflicts in other areas, e.g. Taiwan."

Support for Maritime Presence: The Arabian Peninsula. As noted above, the notion of an "over the horizon" presence has long been favored by policy and opinion makers, and businessmen, in the GCC states. The special role of the Navy is widely understood and appreciated. While most Arab respondents preferred to speak on background, Sheikh Hamad bin Abdullah al-Thani, Qatar's Minister of State for Defense, succinctly summed up their views: "The loss of the U.S. Navy in the Indian Ocean would be a 'disaster.'"⁵² There are those, however, who would prefer some distance even between the Navy and the Persian Gulf. For example, the UAE's Dr. Abdulhalek Abdulla believes that his country would "rather see the Fifth Fleet patrolling around in the Arabian Sea vice inside the Gulf. It (still) tells Iran and Iraq that the U.S. is in there, ready handy...and keeps the external aggression at bay...The Fifth Fleet is not only devoted to Gulf security, but also out there for deterrence purposes."⁵³

Support for Maritime Presence: East Asia. As noted above, a number of East Asian respondents compared maritime presence favorably with land based military presence. Dr. Wannandi, of the Indonesian Center for Strategic and International Studies, bluntly asserted that in terms of presence, "number one is the fleet."⁵⁴ The underlying rationale is the same as in other regions. In the words of Admiral Yeh, "maritime presence affords an important stabilizing effect for the region."⁵⁵

⁵¹ Interview with Brigadier General Shlomo Brom, IDF, May 1996.

⁵² Interview with Sheikh Hamad bin Abdullah al-Thani, January 1996.

⁵³ Interview with Dr. Abdulla, May 1996.

⁵⁴ Interview with Wannandi, May 1996.

⁵⁵ Interview with Admiral Yeh, April 1996.

Finally, it should be noted that, in marked contrast to the references to Okinawa and South Korea, no one interviewed in the region criticized the continued American operations from the naval base at Yokosuka.

Distinctions between carriers and other forms of naval presence. There appear to be a number of views, even within the same defense ministry, regarding the specific utility of carrier battle group presence. While many respondents seemed to speak of maritime presence, naval presence, and carrier task force presence interchangeably, some draw distinctions even between naval and carrier presence. Vice Admiral Dimitracopoulos felt that carriers are connected with the "psyche" of the people; they would be perceived as "gunboat diplomacy at the highest level" and should not be employed for merely routine missions. In particular, he stated that port visits by carriers "should be dealt with care." On the other hand, cruisers or frigates were most likely to be accepted by the public in ordinary circumstances.⁵⁶ Speaking in an unofficial capacity, Dr. Thanos Dokos, a civilian advisor to the Ministry of Defense, articulated a similar view. Carrier battle groups were not necessary as they were in the Persian Gulf or East Asia. In the context of the historic rivalry between Greece and Turkey, presence needed to have symbolic significance, as a demonstration of U.S. interest.⁵⁷ On the other hand, Commodore Antoniadis argued that "presence is derived from the battle group, otherwise it does not appear strong enough."⁵⁸ Indonesia's Dr. Wannandi drew a different conclusion from the distinction that he made between carriers and other forms of naval presence: "It depends on whom you have to deter," he stated. If it's China, you have to be credible. Only a carrier will do."⁵⁹ Prime Minister Binyamin Netanyahu, on visiting the aircraft carrier *Enterprise* in August 1996, and inspecting its airwing, was even more graphic: "I am deeply impressed by the power that is available here. It (*Enterprise*) is really not the power of war...It's the power of peace. The fact that the United States, our great ally, has this power is the best guarantor for peace worldwide."⁶⁰

⁵⁶ Interview with Dimitracopoulos, May 1996.

⁵⁷ Interview with Dr. Thanos Dokos, May 1996.

⁵⁸ Interview with Antoniadis, May 1996.

⁵⁹ Interview with Dr. Wannandi, April 1996.

⁶⁰ "Netanyahu Visits *USS Enterprise*," *Navy News* (August 29, 1996), p.1.

Overseas Presence and Foreign Perceptions of American Reliability

For America's friends and allies overseas, presence is an important, perhaps *the* important indicator of American reliability and credibility. This fact is recognized in the President's National Security Strategy, which, as noted above, states that overseas presence "demonstrates our commitment to allies and friends."⁶¹ Interviews with, and statements by, opinion and policy leaders in all three regions covered by this report consistently reinforced that assertion.

America plays a variety of roles in different regions. Accordingly, the "reliability" of presence means different things to different regional actors. To American allies and friends who are at loggerheads with each other, such as Greece and Turkey, or Israel and its interlocutors in the Middle East peace process, American presence means the continued reliability of Washington as an impartial mediator. In the words of Dr. Theodore Couloumbis, Professor at the University of Athens and President of the Hellenic Foundation for Defense and Foreign Policy, "everybody looks at the U.S. as the most likely intermediary...both sides consider the U.S. a legitimate third party."⁶² Or, as retired Israeli Navy Commander Avraham Ben Shoshan put it, "Today, nobody dares to say that the U.S. is not an honest broker, but if (it) left and then came again it would be a different story."⁶³

Greeks, Turks and Israelis also see American presence as an ongoing deterrent to their adversaries. As retired Vice Admiral Anastassios Dimitracopoulos put it, there is "not a Greek that does not perceive a direct, visible threat from Turkey."⁶⁴ For Turkey and Israel, however, the list of adversaries is much longer, and includes the rogue states of Syria, Iran and Iraq. As General Berhan, the former Turkish Air Force commander, put it, Turkey faces "multi-

⁶¹ A National Security Strategy, p. 13.

⁶² Interview, May 1996.

⁶³ Interview with Admiral Avraham Ben Shoshan, IN (ret)., May 1996.

⁶⁴ Interview, May 1996.

directional threats" including three of the world's "seven terror countries." ⁶⁵ American military presence thus offers Turkey a reliable deterrent against these many threats.

Israelis, despite the peace process, continue to view themselves much as the Turks do, surrounded by actual or potential adversaries. Unlike, Turkey, however, Israel sees Iran and Iraq as current, rather than potential adversaries (both see Syria as a current adversary and will continue to do so at least as long as Syria continues to support the radical Kurdish PKK terrorists and Hizbollah in Lebanon). Accordingly, Israelis attach a special importance to the credibility of American commitments that presence underscores. Brigadier General Shlomo Brom, the IDF's chief planner, and thus responsible for examining worst case threats to his country, considers presence an important sign of reliability because "it reflects the capability to implement the commitment. All elements that could challenge the status quo in the Middle East are aware of U.S. presence and its implications."⁶⁶ Or, as Admiral Ben Shoshan put it, "peace requires constant maintenance. A credible U.S. presence, one that demonstrates commitment as well as capability to respond, is necessary to prevent a possible chain reaction."⁶⁷

The small Gulf states likewise view American presence as a sign of the reliability of America's commitment to their defense, and, therefore, as a deterrent against current or potential adversaries. Nevertheless, many of them worry about the duration of that presence--in other words about American reliability--due to American isolationism, budget cuts or both. Similar sentiments are echoed throughout East Asia.

Thus, Sami al-Faraj, a Kuwaiti security analysts whose country continues to fear Iraqi predations, both speaks and writes of a "concern about America losing interest in the security of the Gulf in future, because of the discovery of alternate sources of energy...budgetary cuts, or even an American reversion to a new bout of isolationism." He goes on to explain that while

⁶⁵ Interview with General Halis Berhan, TAF (ret.), May 1996.

⁶⁶ Interview with Brigadier General Shlomo Dror, IDF, May 1996.

⁶⁷ Interview with Admiral Ben Shoshan, May 1996.

"such concerns are beyond comprehension given the current state of affairs...policy makers are driven to such extremes of thought because of fast change in the Gulf security landscape."⁶⁸

In quite similar terms, an influential Singapore businessman, Dr. Lee Kin-Tat, who formerly advised the legislature on defense matters, asked, "Of course your presence is important to us, but will your finances hold up to support it over the long term?"⁶⁹ Or, as Singapore's foreign minister put it more delicately,

the United States is now undergoing a more introspective phase. We do not take its military engagements in the Asia-Pacific for granted...Southeast Asia's most important task is to make the American people aware that Southeast Asia today represents not a burden but a great opportunity.⁷⁰

Asians are fearful of the consequences of an American withdrawal from their part of the world. In the words of a recent study by a bipartisan task force of academics, businessmen and officials for the U.S. Council on Foreign Relations, "Asian leaders now worry that a U.S. military withdrawal will allow regional rivalries and historical animosities to destabilize the region."⁷¹ Or, in the words of a senior Taiwanese official, the removal of America's maritime presence would "unleash an arms race" in East Asia.⁷² Ultimately, as Dr. Denny Roy, of the Australian National University recently noted, "the real measure of stability provided by U.S. military hegemony can be seen in the fears often expressed within the region about what might happen if the Americans pulled out...Confidence is the foundation of prosperity."⁷³

⁶⁸ Sami M.K. Al-Faraj, The Changing Security Landscape of the Gulf (1995-2000): A Kuwaiti's Perspective: An exploratory paper prepared for the meeting of the Security Group of the Initiative for Peace and Cooperation in the Middle East at Larnaca Cyprus, between 18-20 June 1995 (Kuwait, 1995).

⁶⁹ Interview with Dr. Lee Kin-Tat, May 1996.

⁷⁰ Jayakumar, Southeast Asian Drama, p. 18.

⁷¹ Council on Foreign Relations, Redressing the Balance: American Engagement with Asia (New York: Council on Foreign Relations, 1996), p. 10.

⁷² Interview, April 1996.

⁷³ Dr. Denny Roy, "Prosperity Built on Military Strength", The Business Times (Singapore, June 29-30, 1996), p.1.

Maritime Presence, Stability And Economic Interests

American policy makers have long argued that overseas presence is crucial to the preservation of stability, which in turn is crucial to regional economic growth, which itself is in the American economic and national security interest. For example, Secretary of Defense William Perry's Annual Report for Fiscal Year 1997 refers to "stability" five times in its three page discussion of overseas presence. It describes presence as "underwriting the larger strategy of engagement and enlargement" and "demonstrating America's commitment to defend U.S. and allied interests", which it later explicitly defines as both security and economic interests.⁷⁴

Officials, opinion leaders, and businessmen in states friendly to the United States share that view and are more explicit about the linkage between military presence and the preservation, indeed enhancement, of their own and America's economic interests. This view is shared in all three regions that were studied, and was not contradicted anywhere.

Emre Gonensay, Turkey's Minister of Foreign Affairs, summed up the widespread official and business view in the Eastern Mediterranean when he stated that "economic development needs a strategic backbone to act as a deterrent to adventurism."⁷⁵

Captain Eli Oren, of the IDF Planning Department, offered a perspective that went directly to the heart of American interests. Discussing the value of overseas presence, he stated that, "U.S. power and influence in the world is used to sell its commercial interests (and) ultimately creates benefits for the U.S. common folk."⁷⁶

The linkage between military presence and economics has long been most explicit in both the Persian Gulf region and East Asia. Not surprisingly, therefore, Sheikh Hamad bin Jassim Al-

⁷⁴ Perry, Annual Report, pp. 6, 12-14.

⁷⁵ Interview with Emre Gonensay, April 1996,

⁷⁶ Interview with Capt. Oren, May 1996.

Thani, Qatar's foreign minister, added several further perspectives to those noted above. He first observed that "investment" ranked just behind "security and stability" as reasons for American presence. Presence, he felt, encourages foreign investment in the region. Moreover, presence had another economic implication: Presence made it more likely that there would be "local state contributions to a robust Western deterrent," which proved to be a critical factor in financing both the Gulf War, the subsequent repositioning of American equipment on the Arabian Peninsula, and the financing of the American response to Saddam's renewed threat to Kuwait in October 1994. Without such presence he argued, the small rich GCC states would be less inclined to contribute to coalition efforts against larger regional threats.⁷⁷

Both American and Asian experts, businessmen and opinion leaders likewise were very explicit about the importance of presence to regional economic growth. The above noted study by the Council on Foreign Relations task force asserted that "U.S. economic and security interests depend on Asian stability and justify a continued U.S. military presence in the region."⁷⁸ The Council task force was even more specific about the kind of presence that was preferred in the Asian context: "U.S. efforts should be focused on air and sea forces, leaving land forces to U.S. allies."⁷⁹

The Council's view was echoed by regional observers. "Presence has an important impact on business," stated Dr. Dong Joon Hwang, a prominent researcher at the Korean Institute of Defense Analysis. "It affords stability, which is crucial for domestic business and foreign investors. Investors are reassured by the American presence."⁸⁰ Dr. Yong Seu Kim, President of the Ssongyang Information and Communications Corporation, echoed Dr. Dong's views about foreign investment, adding that foreign investment "would thereby give the economy the 'soft landing' it needed after unification."⁸¹ And Brigadier General George Yeo, SAF (ret.),

⁷⁷ Interview with Sheikh Hamad bin Jassim, January 1996.

⁷⁸ Redressing the Balance, p. 14

⁷⁹ Ibid., p. 14.

⁸⁰ Interview with Dr. Dong Joon Hwang, May 1996.

⁸¹ Interview with Mr. YongSeu Kim, May 1996.

Singapore's Minister of Health and Communications and a former deputy Minister of Foreign Affairs, argued that presence is crucial. "It is important to keep the sea lanes open for business." Yeo, who is one of Singapore's most prominent young politicians and is a keen observer of American affairs, added "the economic impact of presence is important to the U.S., to Singapore, to East Asia as a whole."⁸²

⁸² Interview with BG George Yeo, May 1996.

CHAPTER III

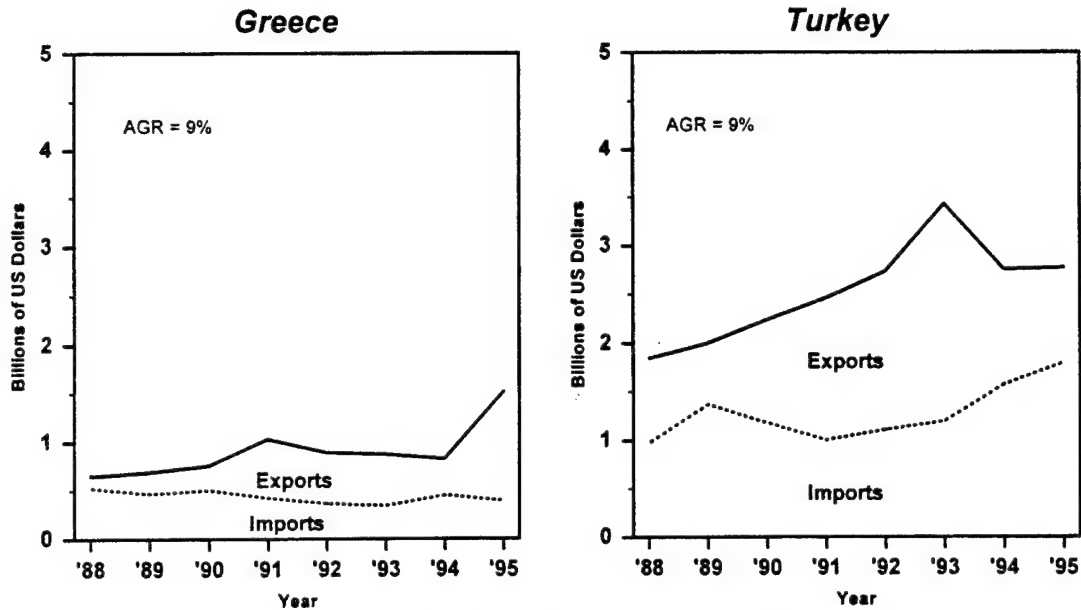
ECONOMIC INDICATORS OF AMERICAN INTERESTS OVERSEAS

There are a variety of ways to measure the degree of American economic interests abroad. Trade statistics tend to be the most frequently employed, as are measures of investment. In general, American economic presence in all of the regions under review has risen markedly since the end of the Cold War, and appears likely to continue to rise with prospective new reductions in trade barriers either bilaterally negotiated, such as the U.S. Israel Free Trade area, or under the auspices of the new World Trade Organization. In addition, the levels of investment overseas continue to rise, particularly in East Asia, which remains the world's fastest growing region economically.

The Eastern Mediterranean. American trade with friendly states in the eastern Mediterranean is on the upswing. Figure 1 outlines the growth in American "visible" trade (the sum of imports and exports) with Greece and Turkey. Trade with both countries has risen, though not monotonically, since the end of the Cold War. The trend has been generally sharper with respect to Turkey, in part, perhaps, because of Greece's membership in the European Union (EU) fosters stronger trade patterns with Europe than with the United States. The EU has not admitted Turkey, and still creates barriers against its goods. In addition, Turkey's former President, Turgut Ozal, played a major role in opening his country's economy to foreign trade and investment, and the figures appear to underscore the success of his efforts.

Figure 1.

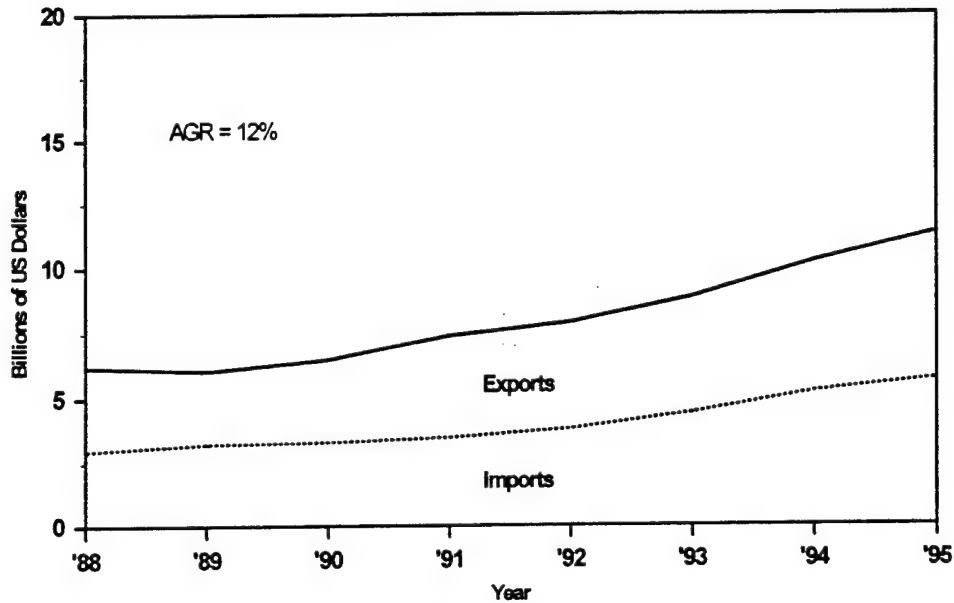
Growth in U.S. Trade : Eastern Mediterranean



Source: US Department of Commerce, International Trade Administration, US Foreign Trade Highlights 1995, Tables 6 (exports) & 7 (Imports)

Figure 2 indicates that trade between Israel and the United States has consistently risen since 1988; a free trade area between the two countries came into force in 1985. The acceleration in trade since 1992 may be due in part to optimism about the Middle East peace process that resulted from the Labor Party's electoral victory in June of that year.

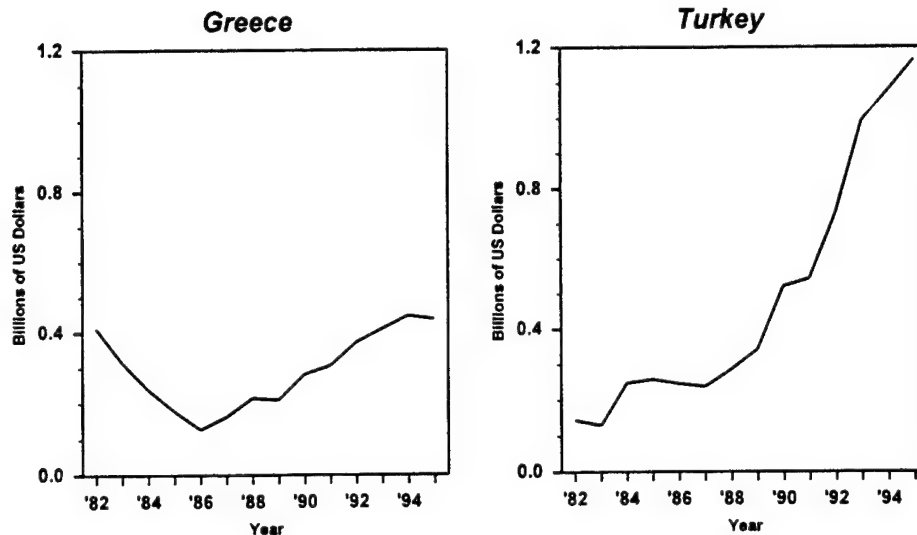
Figure 2.
Growth in U.S. Trade: Eastern Mediterranean
Israel



Source: US Department of Commerce, International Trade Administration,
US Foreign Trade Highlights 1995, Tables 6 (exports) & 7 (imports)

Figure 3 indicates that American direct investment in Greece and Turkey has, in general, also risen since the mid-1980s. Investment in Turkey outstrips that in Greece, both in aggregate terms and in terms of rate of growth. Again, direct the investment for Turkey reflects the strenuous efforts by former President Turgut Ozal, followed by President Suleiman Demirel and Prime Minister Tancu Ciller to attract foreign investment from all sources into Turkey.

Figure 3
Growth in U.S. Direct Investment: Eastern Mediterranean



Source: US Department of Commerce, Bureau of Economic Analysis.

With the exception of a drop in 1992, U.S. direct investment in Israel has risen quite sharply in the 1990s (see Figure 4). This increase is no doubt due to Israel's special relationship with the United States, as well as to the progress of the Middle East peace process since 1992. Significantly, U.S. direct investment alone has accounted for about two per cent of GDP; the "rule of thumb" is that "the level of [total] foreign investment in successful developing countries is around three per cent of GDP."⁸³ As long as the peace process proceeds forward, there is every expectation, therefore, that American investment will continue to rise.

⁸³ Ben-Zion Zilberfarb, "The Effects of the Peace Process on the Israeli Economy," *Israel Affairs* I (Autumn 1994), p.92.

Figure 4.

Growth in U.S. Direct Investment: Eastern Mediterranean
Israel

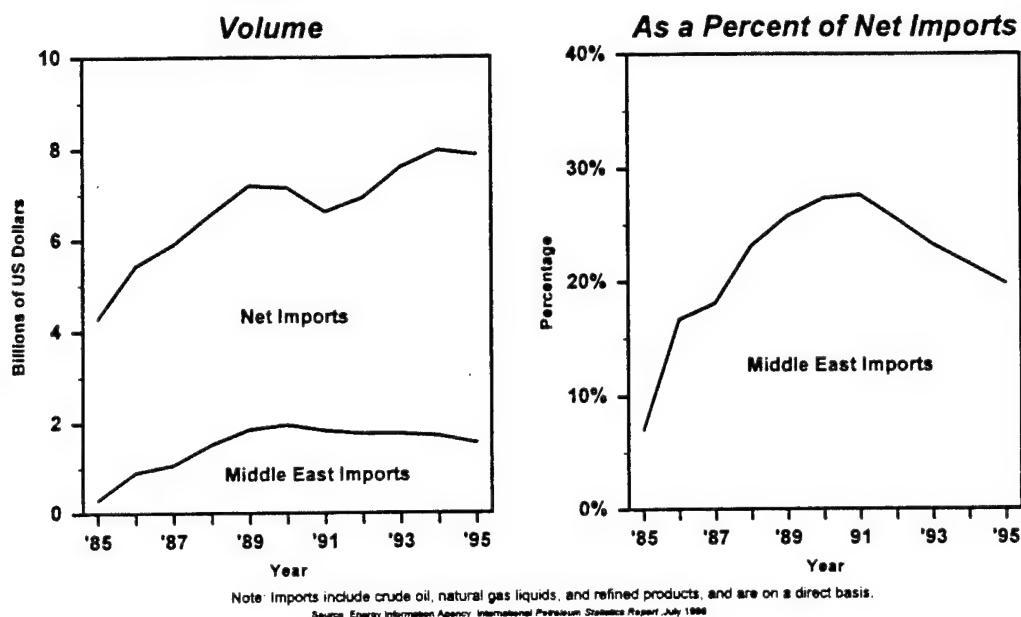


Source: US Department of Commerce, Bureau of Economic Analysis.

The Persian Gulf and Arabian Peninsula. Preserving access to petroleum products has long been identified as America's primary military interest in the Gulf region. Persian Gulf oil continues to comprise an important percentage of American oil imports (about 20 per cent.) although, as Figure 5 indicates, it is actually a declining percentage. Allowing for seasonal fluctuations, both in terms of volume, and as a percent of net imports, Gulf petroleum products have declined since 1990, the year Saddam Hussein occupied Kuwait. The United States has been importing oil from

Figure 5.

U.S. Petroleum Product Imports from the Persian Gulf

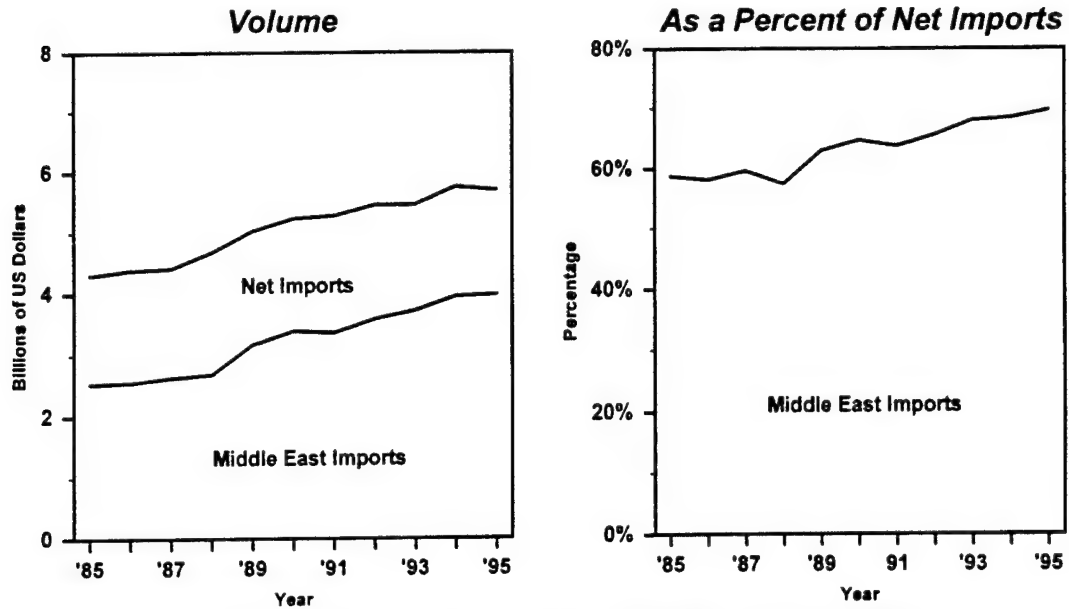


elsewhere, Africa, Europe and Latin America, to satisfy its increasing demand for petroleum.

Other than Japan (see Figure 6), Canada and Western Europe (who, together with Japan and the U.S. comprise the Organization for Economic Cooperation and Development), likewise have slightly curtailed their imports from the Gulf, though these comprise a higher percentage of net imports than they do for the United States (see Figure 7). Despite these declines, Middle Eastern oil will remain a critical resource for the West, since the region still holds about two-thirds of the

Figure 6.

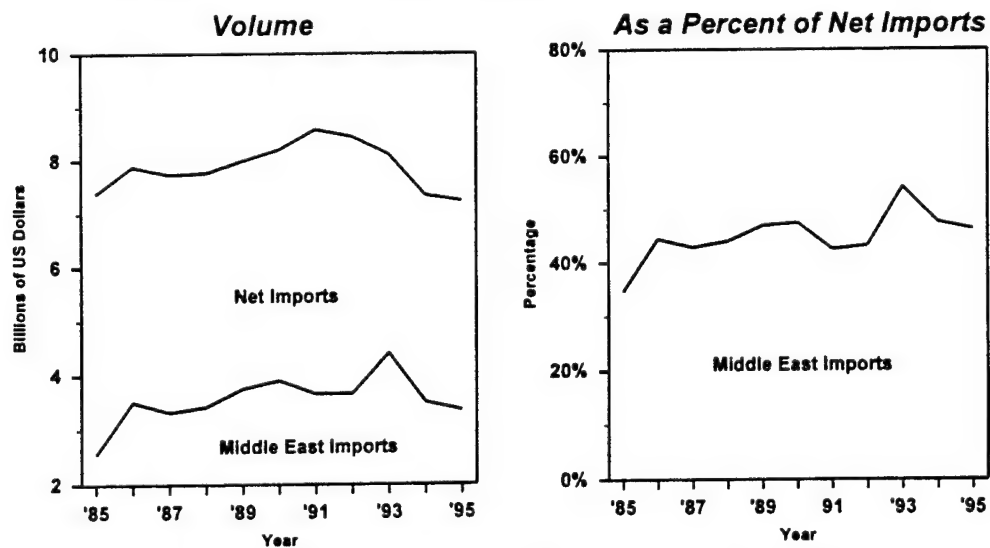
Japanese Petroleum Product Imports from the Persian Gulf



Note: Imports include crude oil, natural gas liquids, and refined products, and are on a direct basis.
Source: Energy Information Agency, International Petroleum Statistics Report, July 1996

Figure 7.

OECD Petroleum Product Imports from the Persian Gulf



Note: Imports include crude oil, natural gas liquids, and refined products, and are on a direct basis.
Source: Energy Information Agency, International Petroleum Statistics Report, July 1996

world's oil reserves.⁸⁴ In any event, the ongoing need for Gulf petroleum products on the part of those states that joined the United States in forming the backbone of the anti-Saddam coalition in 1990-1991 points to the likelihood that, the U.S. could expect once again to organize a coalition successfully in the event of another attack on the Arabian Peninsula.

It should be noted, however, that just as allied responses will not be uniform in short term crises (as for example, French reservations about the recent American cruise missile attacks in response to Saddam's seizure of Irbil in Northern Iraq), so too will the market prices not necessarily be sensitive to short term crises or some military actions of longer duration. For example, oil prices levelled off even as the Iran-Iraq war stretched into the latter part of the 1980s. Similarly, during both the Kuwait crisis of October 1994 and the Irbil crisis of September 1996 there was no sustained rise in oil prices.

To be sure, spot oil prices did rise temporarily in the case of both crises. Indeed, the futures market rose sharply in response to the September 1996, American military retaliation against Iraq for its incursion into the Kurdish capital of Irbil. In that case, however, it appears that what caused a one day price increase of over 5 per cent was not only the U.S. cruise missile attack itself. More important than the military activity was a set of unique circumstances affecting market supply and demand. As a result of Iraq's latest aggression, the United Nations "froze" a long awaited UN accord that was expected to release more than 700,000 barrels of crude a day during the traditionally high demand fourth quarter. Traders and speculators, recognizing that the accord was likely to remain frozen for the foreseeable future, responded accordingly and prices rose.⁸⁵

What appears to matter most with respect to oil prices is what does not happen, or to be more accurate, what is prevented from happening. To the extent that deterrence of major Gulf

⁸⁴ Cambridge Energy Research Associates, "The Oil Dimension," paper prepared for a Council on Foreign Relations Study Group on Middle East Policy (September 1996), pp.1-2.

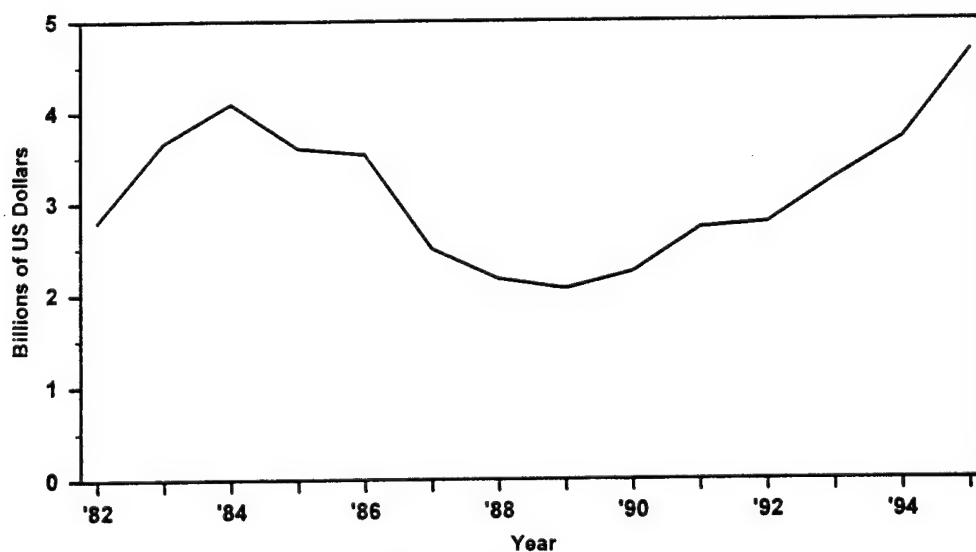
⁸⁵ Anne Reifenberg, "Crude Prices Soar as U.N. Stalls Iraqi Oil Pact," The Wall Street Journal (September 4, 1996), p. C1.

powers appears to be holding in a crisis, prices will remain relatively inelastic, unless, there are other exogenous factors involved, as, for example, the freezing of the UN-Iraqi oil accord. In the words of The Oil Daily, written in the midst of the October 1994, Gulf crisis,

World oil markets continue to be unfazed by the confrontation between Iraq and the United States over Iraq's threatening troop deployments...The main issue for oil markets in the current confrontation is Western resolve to contain Iraq--including its military power and oil export capacity.⁸⁶

In addition to the petroleum trade, investment levels provide a secondary indicator of American economic interests that are at stake on the Arabian Peninsula. Figure 8 demonstrates the sharp increase in aggregate investments in the GCC states since the end of the Gulf War.

Figure 8.
Growth in U.S. Direct Investment: GCC Nations



Source: US Department of Commerce, Bureau of Economic Analysis.

⁸⁶ "Oil Markets Shake Off Iraqi Threat, But Long Term Bullish Effect Expected," The Oil Daily (October 12, 1994).

As noted above, decision makers in many of the Gulf emirates view military presence as an important factor underpinning foreign investment. With so many alternate avenues available for capital invested in the Gulf, a crisis can be damaging to foreign investment. Speaking in the spring of 1996, Ambassador Pachachi of the UAE summed up the situation in the following manner, "U.S. presence has little effect on the economy of a wealthy country like the U.A.E. **except during times of crisis** (our emphasis). We experienced a lot of capital flight after the invasion of Kuwait, but now the money has returned."⁸⁷

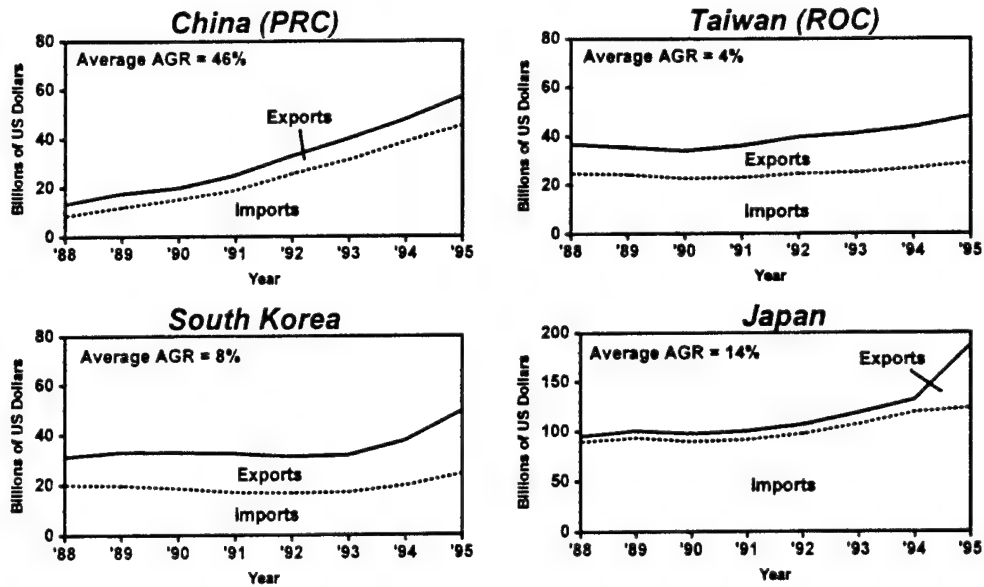
East Asia. As noted above, the linkage between economic stability and presence, notably maritime presence, is stressed most often by Asian and American observers of East Asian affairs. As Figures 9 and 10 demonstrate, trade within both China and the Newly Industrialized Asian states is rising almost inexorably. Trade with Singapore and Indonesia has been rising at an annual rate of about 20 percent since 1988; with China it is about 46 per cent over that same period. Whether it is running surpluses or deficits, as with China, Japan, Taiwan and Indonesia, it is clear that the United States has both a major and a growing stake in East Asian trade, and, therefore in maintaining the free movement of goods to and from that region. Given the geographic configuration of the area, both in terms of the expanses of water as well as the narrow straits surrounding the Philippine, Japanese and Indonesian archipelagoes, the role of maritime force as protector of commerce remains unquestioned.

Apart from trade, the United States also has an increasing stake as an investor in East Asian economic progress. The real dollar value of U.S. investments in East Asia has grown over sevenfold since 1980, and by more than fifty per cent since 1992 (see Figure 11). Investment in East Asia, valued at over \$80 billion, now exceeds ten per cent of total U.S. direct investment.

⁸⁷ Interview with Adnan Pachachi, May 1996.

Figure 9.

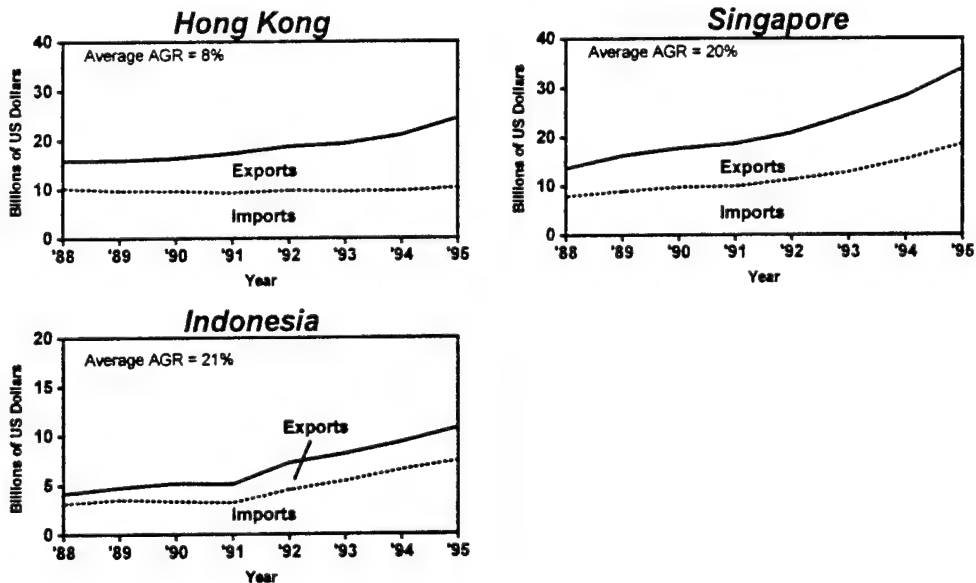
Growth in U.S. Trade: East Asia



Source: US Department of Commerce, International Trade Administration,
US Foreign Trade Highlights 1995, Tables 6 (exports) & 7 (imports)

Figure 10.

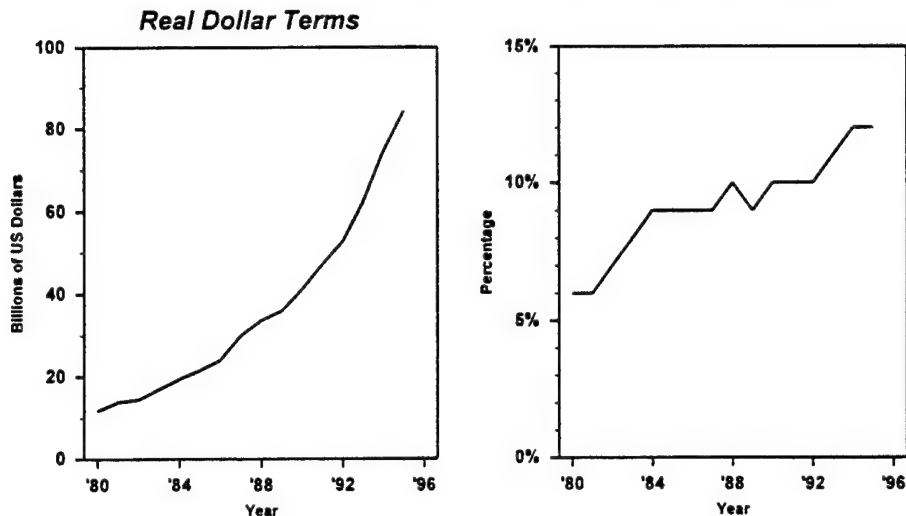
Growth in U.S. Trade: East Asia



Source: US Department of Commerce, International Trade Administration,
US Foreign Trade Highlights 1995, Tables 6 (exports) & 7 (imports)

Figure 11.

Growth in U.S. Direct Investment: East Asia Region

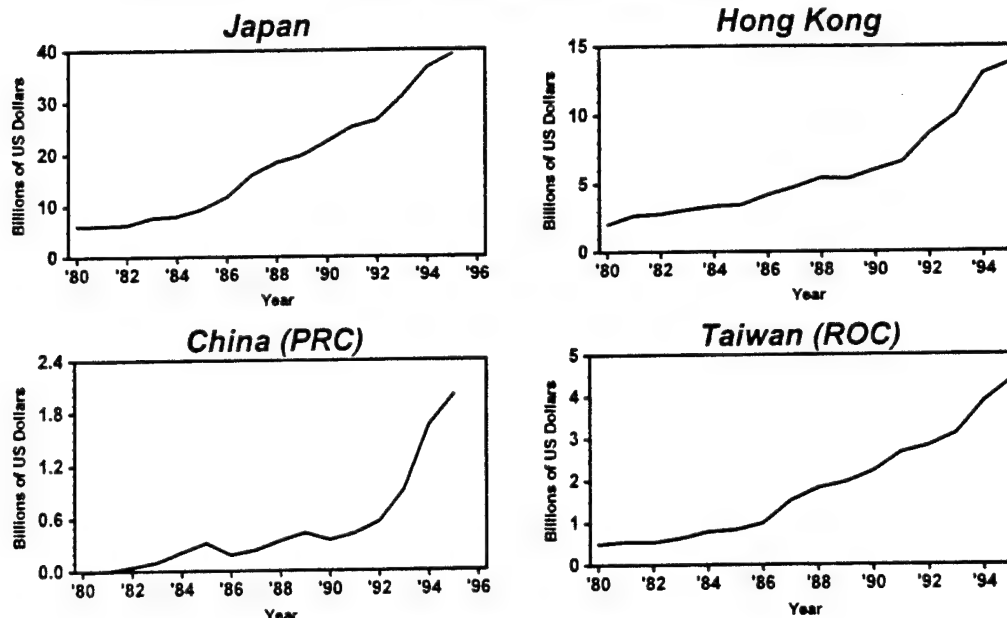


Figures 12 and 13 indicate that the trends are positive for seven key Asian states, with the sharpest recent increases in investment taking place in China, Indonesia, Singapore and South Korea.

Figure 14 affords a somewhat different perspective on American investment in East Asia. It indicates that Asian American depository receipts listed on the New York Stock Exchange have nearly tripled since 1992. Market capitalization than has increased by about 750 per cent over the same period.

Figure 12.

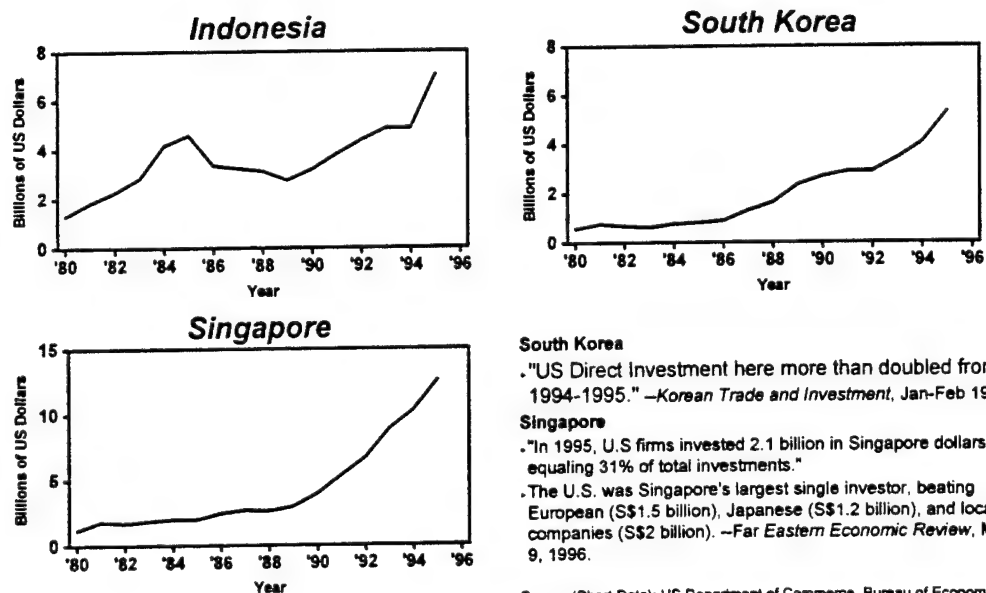
Growth in U.S. Direct Investment: East Asia by Country



Source: US Department of Commerce, Bureau of Economic Analysis

Figure 13.

Growth in U.S. Direct Investment: East Asia by Country



South Korea

• "US Direct Investment here more than doubled from 1994-1995." —*Korean Trade and Investment*, Jan-Feb 1996

Singapore

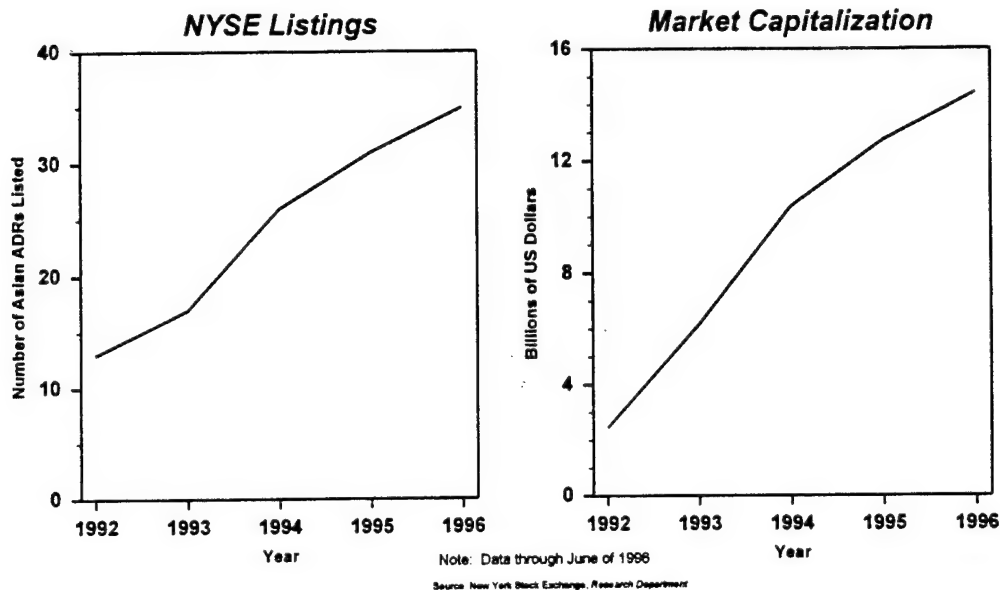
• "In 1995, U.S. firms invested 2.1 billion in Singapore dollars, equaling 31% of total investments."

• The U.S. was Singapore's largest single investor, beating European (\$\$1.5 billion), Japanese (\$\$1.2 billion), and local companies (\$\$2 billion). —*Far Eastern Economic Review*, May 9, 1996.

Source (Chart Data): US Department of Commerce, Bureau of Economic Analysis

Figure 14.

Asian ADRs Listed on the NYSE

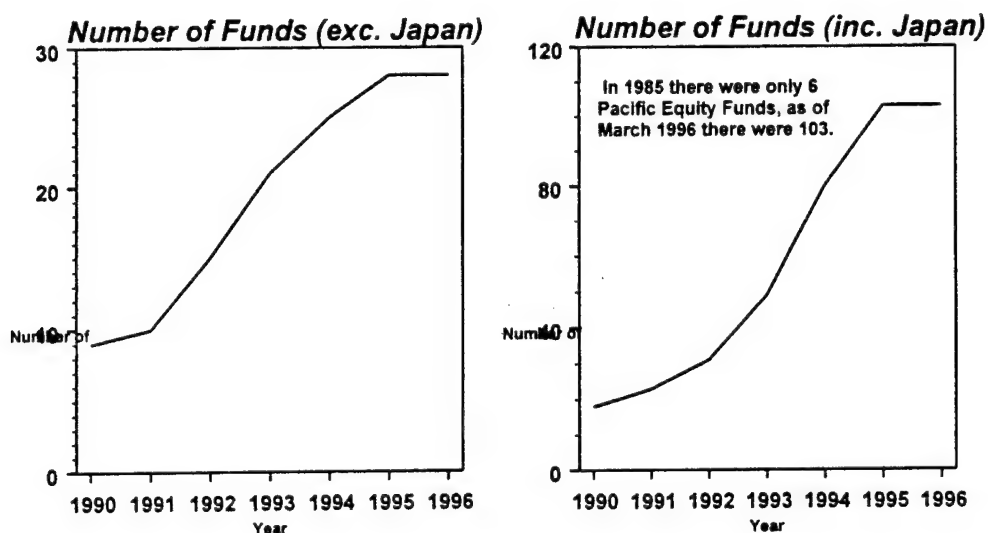


The growth of mutual equity funds has opened sophisticated investment to millions of ordinary Americans, and investment overseas, particularly in East Asia, is equally as impressive. Pacific Equity funds (stocks account for 93 per cent of their assets) have been growing at a phenomenal rate. Including funds investing in Japan, there were six such funds with assets of over \$100 million in 1985; in 1996 there were 103.

Pacific funds now comprise 28 per cent of all international funds. They are most heavily focussed on Japan (27 per cent) and Hong Kong (24 per cent) but also have become increasingly active in Singapore (9 per cent all Pacific funds), Malaysia (8 per cent) and Thailand (7 per cent). As Figure 15 indicates, the number of funds investing in the Newly Industrialized Countries (NICs) of East Asia has tripled since 1990. Moreover, the increases in market capitalization of funds investing in the NICs has, if anything, been even more remarkable.

Figure 15.

American Based Asia/Pacific Equity Funds



Source: Fund Prospectuses

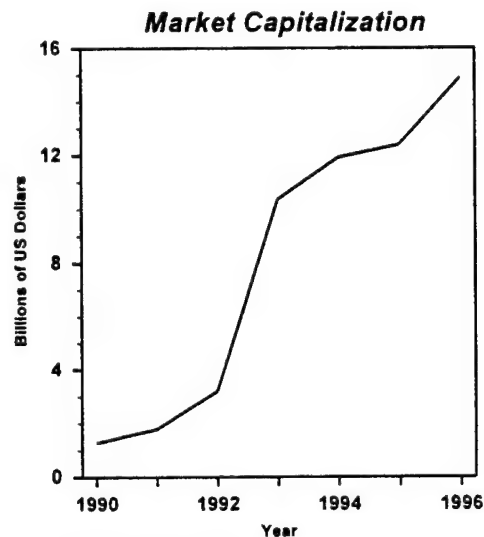
Note: Includes only funds with greater than \$100 M in assets as of June 30, 1996

Figure 16 demonstrates that market capitalization for equity funds with assets in excess of \$100 million and investing in the NICs increased by an annual rate of 94.8 per cent over that same period.

Figure 16.

American Based Asia/Pacific: Equity Funds (Excluding Japan)

- ▶ At least 65% of each fund is invested in the Asia/Pacific region.
- ▶ Market capitalization increased from \$1.28 billion in 1990 to \$14.89 billion in 1996



Source: Fund Prospectuses

Note: Includes only funds with greater than \$100 M in assets as of June 30, 1996

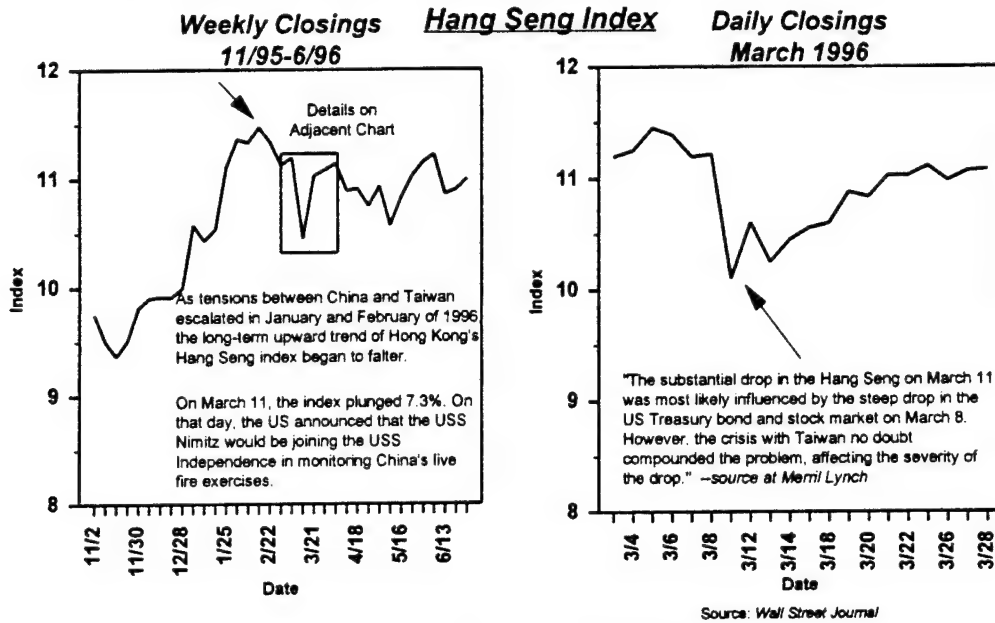
The Interrelationship Between Presence And Economic Stability: A Case Study

The Taiwan election crisis of late 1995 and early 1996 provides an interesting case study of the impact of American presence and military responsiveness on local Asian markets. Tensions between China and Taiwan escalated during the run up to the March 1996 presidential election--the first such election in Taiwan's history, as China undertook a series of live fire missile exercises that were unusually close to Taiwanese territory. As tensions mounted, the Hong Kong Hang Seng index began to falter (see Figure 17). On March 11, barely two weeks before the election, the index dropped 7.3 per cent, while the same day the United States announced that the *Nimitz* aircraft carrier battle group would be joining the *Independence* carrier battle group in monitoring the exercises. The drop was described as a "bloodbath...the worst in percentage terms since 1991."⁸⁸ The crisis accelerated and aggravated a decline that was affected

⁸⁸ "Global Bourses Shudder in Wall Street's Wake, But Asia Shows Calm and Europe Cuts Losses," *The Wall Street Journal* (March 12, 1996), p. C22. The *Journal* noted that the decline followed "the steep drop" in U.S. bond

Figure 17.

Crisis Presence: Economic Impact - Taiwan Election Crisis



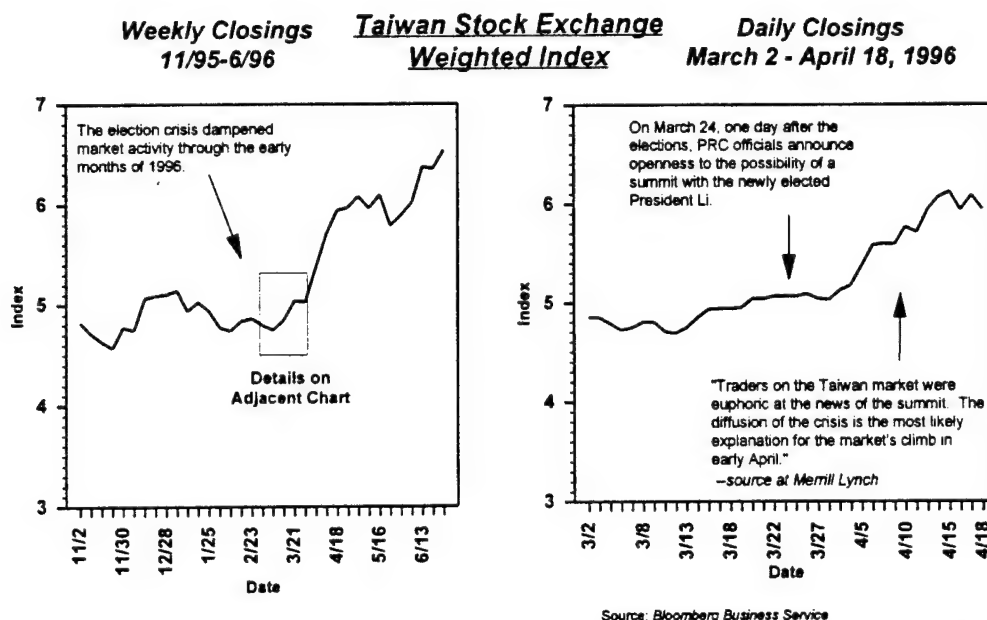
by a drop in U.S. stock market prices in early March. A somewhat similar effect was felt on the Taiwan stock exchange (see Figure 18).

After some brief uncertainty as to whether the *Nimitz* would enter the Taiwan strait, the crisis seemed to dissipate. The market responded accordingly, steadily rising to recover much of the ground that was lost when tensions were highest. As Lin Yu-Fang, a New Party member of the Taiwanese Legislative Yuan and chairman of its defense committee put it, "the economic

and stock prices before the weekend of March 9-10 "and stepped up China-Taiwan tensions, though a large part of the soaring activity was driven by derivatives such as stock warrants and futures. Many investors awaited China's reaction to Washington's decision to send warships to Taiwan."

Figure 18.

Crisis Presence: Economic Impact - Taiwan Election Crisis



impact of the crisis was horrible. The economy picked up immediately when the United States intervened."⁸⁹ Immediately following the crisis the Taiwanese press reported that the crisis had impaired Taiwan's trade, which revealed a decline in both exports and imports for the first time in two years.⁹⁰ Obviously, had the crisis persisted, or escalated, the damage would have been even more serious.

⁸⁹ Interview with Lin Yu-Fang, April 1996.

⁹⁰ Sofia Wu, "War Games Contribute to Export Drop," *CNA*(Taipei), April 8, 1996.

CHAPTER IV:

ESTIMATING THE COST OF PRESENCE AS A "PEACETIME INSURANCE PREMIUM"

The study thus far has demonstrated that overseas officials, opinion makers and businessmen share the common American perception that the presence of maritime forces in particular has a stabilizing effect on both political and economic developments in the Eastern Mediterranean, the Persian Gulf and East Asia, where the bulk of those forces are deployed. In addition, the study has sought to identify the importance of American economic interests in those three regions, and, in a case study, to highlight the impact of a major politico-military crisis on the behavior of a key regional market.

However beneficial presence might be, it does not come without cost. American forces overseas incur costs in addition to those that they would generate at bases within the United States. These marginal costs of what are termed "operations and support" (O&S) are to be found primarily in the operations and maintenance, military personnel and family housing accounts, involving such matters as special pay and benefits for overseas duty, dependents' educations (the Department of Defense operates one of the world's largest school systems), provision of family housing and the operation and maintenance of weapons systems in theater. Additional costs, which would appear in the procurement accounts, would involve the cost of replacing equipment earlier than anticipated due to extensive use overseas and the cost of spare and repair parts.

The annual cost of global presence which reflects these various cost categories must then be compared to some figure that might represent "the cost of war." The ratio between the two figures would yield the value of the "insurance premium."

A first approximation of the cost of global presence can be derived on the basis of algorithms developed in System Planning Corporation's Constant Force Model (CFM). This estimate relates the budget accounts that fall into the operations and support (O&S) category to

active military personnel, and postulates that the cost of replacing weapons systems is a function of both their projected service lives and the exponential impact that technological change has on systems cost. Applying the CFM to a deployed active duty force of 238,000 troops, as well as to the systems that those forces operate, yields an annual estimate of \$12 billion (constant fiscal year 1997 dollars).

The \$12 billion figure can now be compared to "the cost of war" for the U.S. The United States has fought only one major war in the past two decades, the Gulf War. The Department of Defense has estimated that the total cost of the war amounted to \$49 billion (excluding compensation, since the troops would have been compensated even if they had not gone to war). Table 3 outlines the components of the DoD estimate.

It should be noted that the Gulf War was unusually brief, and, due both to its brevity and the overwhelming superiority of the United States coalition, resulted in few human losses and very low attrition rates for materiel. The cost of this war must, of necessity, be an understatement of what a more prolonged conflict, even the so-called short war scenario once postulated by NATO when it confronted the Warsaw Pact, would be likely to generate.

The Department of Defense currently postulates a requirement to conduct two "medium regional contingencies", that is, demanding at least the resources initially devoted to the Gulf War, nearly simultaneously. That requirement of necessity calls for a doubling of the estimate of the "cost of war." As Table 3 indicates, the annual cost of overseas presence can be represented as a premium that is one-eighth the "cost of war."

Table 3.**Cost of War Vs Cost of Annual Overseas Presence**

	DESERT SHIELD/ DESERT STORM	Global Presence
End Strength (K)	158	238
Costs (FY97\$)		
Operations and Support (O&S)	\$39B	\$11B
Acquisition		
Replacement	9	1
Wear and Tear	1	—
Subtotal	49B	12B
Two MRC Requirement	x2	—
TOTAL	\$98B	\$12B

Note:

1. DS/DS END-Strength was 158K; March 1996 overseas presence end-strength was 238K.
 2. Military pay cost equals 10B in both cases.
 3. O & M estimate for Global Presence based on historical per capita cost.
 4. Acquisition Replacement estimate for Global Presence equals depreciation value of PREPO ships and War Reserve Stocks.
 5. DS/DS wear and tear cost reflects additional costs related to the acceleration of retirement given the OPTEMPO rate.
-

Again, it should be noted that the course of war is seriously understated, the War in Vietnam, which lasted over a decade, was an order of magnitude more costly than the Gulf War, particularly if calculated in constant 1997 dollars. Moreover, for those who believe that postulating operations and support costs in relation only to active forces overstates projected budgets, the cost of presence is overstated as well. Thus, in a very real sense, the premium outlined here is most likely too high, and understates the true value of presence to the American people.

CHAPTER V:

FINDINGS: SOME LESSONS FOR REGIONAL COMMANDERS

General Findings. Regional Commanders-in-Chief (CINCs) engage in diplomacy almost as much as they do in carrying out military tasks. They are at the forefront of America's overseas presence, and they are constantly interacting with regional elites, and many ordinary citizens as well. The limited sample interviewed for this study would seem to indicate that most of the leading regional figures with which commanders interact are likely to ascribe as much importance to American regional presence as do the United States government and American business leaders. Regional officials, businessmen and opinion makers generally perceive that presence is a stabilizing factor in both political and economic terms. They see presence as especially important as an inducement to American investment in their regions. And they view maritime presence as the preferred form of presence for the long-term, primarily because it is less intrusive. Many of them discuss carrier battle group presence and maritime presence interchangeably, though some would see carriers as the all-important American "trump card" that should not be played casually.

Unified commanders charged with maintaining forward presence should recognize that America maintains a major economic stake in all three regions under review in this study. American investment in the Eastern Mediterranean and Asia has risen sharply, more than doubling in each region since the end of the Cold War. It is noteworthy that the growing stake of mutual funds in overseas investment, notably in East Asia, has made the economic fortunes of that region in particular of immediate importance to millions of ordinary Americans whose retirement plans are invested in these funds.

The levels of Persian Gulf petroleum imports have declined slightly since the end of the Cold War. Nevertheless, American dependence is sufficiently significant so that disruptions,

such as the American response to the occupation of Irbil, can have a hypodermic effect on prices that, if sustained, wallets have serious ramifications for the U.S. economy.

Although the evidence is limited, there appears to be some empirical basis in support of the widely held assumption that there is a positive correlation between the stability of regional markets and the ability of American forces to defuse crises quickly. This hypothesis requires considerably more study, however, as do many of the other observations about the relationship between overseas economic prosperity, American economic interests and military presence.

Finally, a first order estimate would put the annual cost of the "overseas presence insurance premium" at no more than one-eighth the likely cost of two major regional conflicts (MRCs). While this cost relationship requires additional study, it is most certainly conservative, understating the cost of two nearly simultaneous conflicts and perhaps somewhat overstating the costs of overseas presence.

Implications For EUCOM. Maritime presence is a major reassuring factor for Israel and is seen as a stabilizing factor for Greece and Turkey, vis à vis other threatening powers and vis à vis each other. There is some preference for carrier battle groups, though it is by no means uniform among elites within a given country. There is, however, no demand for expanding the current minimal land based American presence in the region.

Investment in the region continues to expand, notably in Israel and in Turkey. These investments will likely sustain the desire for American presence. Conversely, that presence will become of greater importance to Americans economically, while it will retain its importance in geostrategic terms.

Implications for CENTCOM. American presence continues to be welcomed by regional opinion leaders and policy makers throughout the GCC, and especially in its smaller members. The local elites view presence as a stabilizing factor in both economic and political terms. With the

obvious exception of Kuwaitis, they have not, however, discarded their historic aversion to foreign presence on their soil, and continue to express a preference for maritime presence, which can operate "over the horizon."

Petroleum remains a major American import, and the U.S. economy remains vulnerable to sharp price increases even though dependence on Gulf oil has declined somewhat in recent years (in contrast to Japan, whose presence has increased). On the other hand, investment continues to rise, so that the American economic stake in the region remains important, and is matched by the stake of America's OECD allies. For this reason, the prospect for coalition building in the event of a threat to petroleum resources in particular remains high, despite the passage of time since the Gulf War.

Implications for PACOM. Whether in northeast or southeast Asia, there is a strong consensus that military presence remains the most cogent indication of long-term American commitment to the region. Regional leaders anticipate a gradual drawdown of American land forces, but view that development with little apprehension. On the other hand, flexible presence, especially maritime presence, is actively welcomed by states friendly to the U.S., notably the ASEAN states, and is not even rejected by the PRC.

Asians are explicit about linking presence to economic growth; they see presence as the key to economic stability. Certainly, the American economic stake in Asia, important for the past century, has grown markedly in recent years, especially since the end of the Cold War. The growth of mutual funds in the region is especially noteworthy, and creates a new interest on the part of ordinary Americans in the region's economic prospects. The case of the Taiwan crisis underscores the foregoing observations: crises disrupt markets and investments. On the other hand, the ability of American maritime forces to help resolve the Taiwan dispute demonstrated the direct importance of maritime presence to American economic prosperity. The markets not affected, in Hong Kong and Taiwan, responded sharply to the American intervention, recovering most of the losses that had taken place during the crisis.

Appendix A

Issues to Raise during In-Country Interviews

In general, how do you perceive your security environment?

- Where do the main threats to your national security emanate from, how potent are they, and who are your natural allies in the cause of deterring/defending against them? How has the threat changed since the end of the Cold War?
- Do you think that a single power will emerge as the undisputed regional leader in the near-term if so, which), or do you think the near-term will be characterized by a balance-of-power (if so, among whom)?

In general, how do you regard U.S. military power projection in this region?

- What are the effects of U.S. military presence in your region, both on deterring conflict and mitigating them if they break out?
- In your opinion, is there a link between long-term presence and economic stability?
- Is the perception of the U.S. military one of an "honest broker" or one which takes sides? Which role would be more appropriate, in your view?
- What are the domestic effects of U.S. military presence? In particular, does it tend to have a stabilizing or destabilizing effect, and why?

What forms of U.S. presence (land-based, sea-based, military-to-military contacts, non-military presence) are most useful in *deterring* conflicts in your region?

- In your country/region, which forms have *historically* contributed to the "deterrence mission"?
- Which forms, in your view, are harmful to the deterrence mission?
- To the extent that regular port visits by U.S. vessels play a part in deterring conflict over the long-run, is any distinction made between carriers and smaller ships?
- "How much is enough"?, and conversely, what is the floor below which you do not take the U.S. commitment seriously?

What forms of U.S. presence are most/least useful in *restoring stability* once a crisis is underway?

What is the opinion of the following populations, and do they represent a shift from previous years?

- the general public
- the business community
- opinion makers: media, intellectuals, cultural icons
- the armed forces
- the political leadership

What would be the impact of a U.S. withdrawal from the region?

- What do you predict would be the short term and long term implications for your country's security?

Do you perceive any economic benefits derived from having continued U.S. presence?

- Does its contribution to maintaining a stable environment translate into benefits for your economy?
- If so, how do you see the linkage?